



# **NAVAL POSTGRADUATE SCHOOL**

**MONTEREY, CALIFORNIA**

## **THESIS**

**PUBLIC BUDGETING: THE COMPROMISES AMONG  
THE SOUND BUDGETING PRINCIPLES IN  
CONTINGENCY FUNDING**

by

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June 2017

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**PUBLIC BUDGETING: THE COMPROMISES AMONG THE SOUND  
BUDGETING PRINCIPLES IN CONTINGENCY FUNDING**

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## **ABSTRACT**

The purpose of this thesis is to observe the budgeting practices of the government in funding contingency operations to determine to what extent a policy-maker's actions result in compromises among the sound public budgeting principles. To accomplish the objective, this thesis evaluates the evolution of budgeting practices used in funding overseas contingency operations from 2001 to 2016 and determines the level of application of the sound budgeting principles to the budgeting practices. To illustrate the application of use, this thesis first defines the principles of sound public budgeting and maps the differing budgeting practices to the characteristics along a relative spectrum of high, medium, and low to determine if there are discernible patterns. A framework does not exist for Congress to fund for contingencies; policy-makers must therefore use budgeting practices that are less than ideal. Since the attacks of 9/11, the United States has funded contingency operations through processes different from normal budgeting. Over the last 15 years, those budgeting practices have evolved in a manner that questions to what extent funding for contingency operations is consistent with the principles of sound public budgeting. An analysis shows that compromises are made among the principles to adequately fund for contingency operations.

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## LIST OF ACRONYMS AND ABBREVIATIONS

ADA	Antideficiency Act
BA	budget authority
BBA	Bipartisan Budget Act
BBEDCA	Balanced Budget and Emergency Deficit Control Act
BCA	Budget Control Act
BR	budget resolution
CR	continuing resolution
CRS	Congressional Research Service
DERF	Defense Emergency Response Fund
DHS	Department of Homeland Security
DOD	Department of Defense
DOS	Department of State
DRF	Disaster Relief Fund
FEMA	Federal Emergency Management Agency
FMR	Financial Management Regulation
FY	fiscal year
FYDP	Future Years Defense Program
GAO	Government Accountability Office
GWOT	Global War on Terror
IFF	Iraqi Freedom Fund
MILCON	military construction
MILPERS	military personnel
MPN	military personnel, Navy
OCO	overseas contingency operations
OCO/GWOT	overseas contingency operations/Global War on Terror
OEF	Operation Enduring Freedom
OFS	Operation Freedom's Sentinel
OIF	Operation Iraqi Freedom
OIR	Operation Inherent Resolve
O&M	operations and maintenance

OMB	Office of Management and Budget
OND	Operation New Dawn
OPTEMPO	operational tempo
PB	Presidential Budget
POM	program objective memorandum
PPBE	planning, programming, budgeting, and execution
R&D	research and development
SECDEF	Secretary of Defense



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## **I. INTRODUCTION**

Since the day after the terrorist attacks on September 11, 2001, the United States has funded contingency operations through processes different from normal budgeting practices, and in addition to the base budget for defense. There are compromises that exist between sound, effective budgeting and supporting military contingency operations, for both the legislatures and the policy-makers. Supporters claim that the various practices over time are necessary to achieve success in the military contingency operations that support the War on Terror. And critics refer to the contingency operations funds as a “slush fund” that allows Congress to circumvent governing budgeting rules, which do not include budgeting for contingencies. This thesis examined the manner in which contingency operations are budgeted for and appropriated, with regard to the principles of sound public budgeting, between Fiscal Year (FY) 2001 and FY16. The goal of this research was to determine, through an objective evaluation of the different characteristics of budgeting practices, to what extent funding for contingency operations is consistent with the principles of sound public budgeting.

### **A. BACKGROUND**

Budgeting practices in both the Pentagon and Congress have evolved over the years as both organizations have at times sought flexibility to support the military mission, and the discipline to maintain the integrity of the budgeting process. Changes in priorities may have resulted in processes that are less than ideal.

According to the *Public Expenditure Management Handbook*, budgeting serves multiple purposes, requiring that budget reform be an ongoing task within the government (World Bank, 1998). With an overarching focus on ensuring public resources are planned, managed, and applied effectively, there are 10 principles of sound public budgeting that policy-makers should strive to attain in budget formulation, execution, and implementation to ensure the budgeting practices meet the expectations of sound budgeting today and in the future.

While all the principles listed in the *Public Expenditure Management Handbook* are imperative to effective budgeting, during the previous two administrations, policy-makers have exhibited practices that lack the quality characteristics of sound public budgeting regarding funding for contingency operations. The principle of *discipline* ensures that the budget utilizes only the necessary resources, while *flexibility* focuses on using all the relevant information available to determine who is authorized to make decisions about resource allocation. The principle of *legitimacy* deals with decisions during budget formulation that affect policy; it ensures that the decisions made throughout the process are the “best.” *Honesty* is integral to the process; it ensures that the budget is a result of unbiased decision making and is coupled with *transparency* to ensure that the results of the budget are accessible and comprehensible, and clearly communicated to the public. Lastly, *accountability* holds policy-makers responsible for the decisions that they make during the process. Among these principles, there are compromises that exist to achieve the political objectives of Congress.

## **B. PURPOSE OF RESEARCH**

The purpose of this research is to observe the way that the president, Congress, and federal agencies handle funding contingency operations and to evaluate their budgeting practices compared to the principles of sound public budgeting. The research draws conclusions about the extent to which policy-makers’ actions resulted in compromises among sound public budgeting principles with an eye toward making recommendations for improvement.

## **C. RESEARCH QUESTIONS**

The following is the primary research question:

1. As budgeting and appropriation practices for contingency operations evolved, to what extent were they consistent with the principles of sound public budgeting?

To answer the primary question, there are four secondary questions:

2. What are the principles for sound public budgeting?

3. What does the literature say about sound budgeting principles in the context of contingency funding and defense funding?
4. How have the practices for budgeting for contingency operations in both the executive and legislature evolved between FY01–FY16?
5. When those practices changed, did policy-makers rationalize the change in terms of the principles, and were expectations met?

#### **D. SCOPE**

The thesis covers contingency funding from FY01 through FY16. Data sources include Congressional Research Service (CRS) reports on the overseas contingency operations funding, budget estimates for each year from FY01 to FY16, historical tables of the U.S. budget, scholarly reports on defense budgeting, articles on the overseas contingency operations fund, and literature on the public budgeting system. I define the principles of sound budgeting and characterize these principles on a relative spectrum to portray how policy-makers have rationalized the changes in terms from FY01 to FY16. I examine how budgeting practices have evolved over the years, through supplemental appropriations over time using the Defense Emergency Response Fund (DERF), Iraqi Freedom Fund (IFF), Global War on Terror (GWOT) appropriation, and the Overseas Contingency Operations (OCO) appropriation. I determine which rules have changed to support the principles of sound budgeting and their impact on future supplemental appropriation bills for contingency operations.

#### **E. METHODOLOGY**

This research was qualitative and followed the theory of Pattern Matching, as introduced by Robert K. Yin (2003) in *Case Study Research*, compared an empirically based theory with a predicted one to determine a pattern that strengthened the internal validity that the principles of sound budgeting were used along a spectrum to achieve trade-offs in public budgeting. This method involved linking two patterns where one was theoretical and the other was observed or operational. This method included the following steps:

1. Using what the literature on public budgeting says ought to happen in the budget processes, form a theory of ideal contingency budgeting practices. Describing those practices using the characteristics of effective budgeting.
2. Using archival data, describe the budgeting processes for contingencies from FY01 to FY16, focusing on significant changes in budget practices and, where available, the motivations for those changes.
3. Comparing the actual practices with ideal practices. Describing the actual practices using the characteristics of effective budgeting.
4. Mapping the differing practices to the characteristics of sound public budgeting and determine whether there are discernible patterns.
5. Formalizing a theory about the extent to which actual budget practices match the ideal and how changes in budget practices resulted in compromises among the characteristics of effective budgeting.

A literature review introduced the public budgeting processes within the U.S. government, discussed contingency budgeting regarding funding contingency operations overseas in support of military operations between 2001 and 2016 and defined the principles of sound public budgeting within an effective budgeting system process.

## **F. ORGANIZATION**

Chapter I provides an overview, the background information of this thesis, its purpose, and the scope of the research. Chapter II reviews contingency budgeting in the United States, defines the principles of sound public budgeting, and describes what is supposed to happen during the budgeting process both in a normal situation and in the case of an emergency. Chapter III reviews historical events from FY01 to FY16 focusing on the significant changes in budgeting practices and the motivations behind those changes. Chapter IV provides an evaluation of contingency budgeting practices by using the principles of sound public budgeting and presents a comparative analysis and discussion of the extent to which contingency operations are budgeted for and appropriated. Chapter V provides a conclusion to the extent that budgeting practices have evolved over the years because of compromises made to the sound budgeting principles. It also offers a recommendation for budgeting for contingencies while maintaining integrity in the budgeting system using the principles of sound budgeting, based on the lessons learned between 2001 and 2016.

## **II. LITERATURE REVIEW**

The goal of this chapter is to conduct a critical analysis of data sources such as CRS reports, literature on the budgeting system, the U.S. budget, scholarly reports, and other articles on budgeting for overseas contingency operations to define what ought to happen in the budget process when budgeting for contingency operations. From the literature, a set of ideal budgeting practices form a baseline to use for comparison. Once established, the ideal budgeting practices are described using the characteristics of effective budgeting.

### **A. THE BUDGET PROCESS**

There are three interrelated phases of the budget process: formulation of the President's Budget (PB), Congressional actions, and the execution of the enacted budget and laws. The budget system is a framework designed to allow the U.S. government a means to decide how much and what to spend the country's resources on (OMB, 2016, p. 97). Ideally, it allows decision-makers the ability to use the best relevant information available in order to allocate resources in the most efficient way possible to achieve some specified political objective or goal (Organisation for Economic Co-operation and Development [OECD], 2014). Through the budgeting system, financial resources are translated into human purposes and allocated through a central policy document that is called a budget (Wildavsky, 1975, p. 3). The budget is the principal tool for employing fiscal policy and influencing the economy. Essentially, it is a contract between the government and its citizens that determines how resources are allocated (OECD, 2014, p. 1).

#### **1. Formulation of the President's Budget**

Through the budget, the president sets forth fiscal policy objectives to illustrate how the government plans to prioritize and achieve specific objectives through resource allocation. The primary focus of the budget is on the allocation of resources for the current budget year (OMB, 2016, p. 97). A budget year is a "term used in the budget formulation process to refer to the fiscal year" in which Congress is considering the

budget (Government Accountability Office [GAO], 2005, p. 55). In a normal year, the process begins in spring with the president establishing a budget based on specific policy guidelines. The president, along with other executive officials and the Office of Management and Budget (OMB), reviews proposals and evaluations on current policy, previously enacted budgets, and reactions from the last proposed budget to make decisions on the current budget year proposal. Based on the guidelines set by the president, guidelines specific to the policy are created by the OMB along with the federal agencies to guide the budget request for the budget year. Once the guidelines are established, agencies submit their budget requests to the OMB for review. By late December, the decision-making process is complete and the budget preparation process begins with developing detailed budget data based on the effects of economic outlooks on the budget estimates (e.g., interest rates, economic growth, and inflation). This is done concurrently with considering the needs of available resources for each program and the allocation of those resources among the federal agencies (OMB, 2016, pp. 97–98). The process concludes when the president sends his proposal to Congress, which is due by the first Monday of February, to allow time for Congressional action.

To carry out the requirements of the Constitution, the president must consider Chapter 11 of Title 31, United States Code and the Budget and Accounting Act (1921), which established the framework for federal budgeting. These laws provide the president with procedures for submitting his budget proposal; entail the information required to be contained therein; describe the congressional budget process and the controls for certain aspects of budget execution; and delineate the budget treatment for federal credit programs (OMB, 2016, pp. 97–115). Additionally, the president must consider budget enforcement laws such as the Balanced Budget and Emergency Deficit Control Act (BBEDCA) of 1985, which initially established limits on discretionary spending and provided enforcement mechanisms for control (OMB, 2016, p. 115). Since then, the Budget Control Act of 2011 (BCA) amended the BBEDCA and reinstated the limits to the amount of discretionary budget authority allowed by Congress and discretionary spending for defense and non-defense categories (White House, 2016, p. 3). During this process, decision-makers assist the president in developing a budget by considering the



effects of economic factors, the annual and multi-annual request for program funding and program requirements, departmental budget requests, and the total current outlays and receipts (OMB, 2016, pp. 97–98). During a normal budget year, the budget calendar depicts the significant budget events and the scheduled dates for completion for each action item (see Figure 1).

BUDGET CALENDAR	
The following timetable highlights the scheduled dates for significant budget events during a normal budget year:	
Between the 1st Monday in January and the 1st Monday in February .....	President transmits the budget
Six weeks later .....	Congressional committees report budget estimates to Budget Committees
April 15 .....	Action to be completed on congressional budget resolution
May 15 .....	House consideration of annual appropriations bills may begin even if the budget resolution has not been agreed to.
June 10 .....	House Appropriations Committee to report the last of its annual appropriations bills.
June 15 .....	Action to be completed on "reconciliation bill" by the Congress.
June 30 .....	Action on appropriations to be completed by House
July 15 .....	President transmits Mid-Session Review of the Budget
October 1 .....	Fiscal year begins

Figure 1. Budget Calendar for a Normal Budget Year. Source: OMB (2014, p. 99).

For defense budgeting, the planning, programming, budgeting, and execution (PPBE) process determines how the U.S. Department of Defense (DOD) allocates its resources for manning, training, and equipping the military to support the national security objectives while also supporting the military’s operational plans. Annually, the military service chiefs submit a program objective memorandum (POM) to the secretary of defense (SECDEF) outlining resource limitations across a five-year period. The PPBE system is designed to link defense strategic planning to programs that will best achieve that strategy, within the limitations of the budget document. Once the budget document is prepared, it is submitted to the Congress for authorization and appropriation (Congressional Research Service, 2016).

## 2. Congressional Actions

When Congress receives the president’s budget proposal, its focus is to create a single budget resolution (BR) which represents both the House and the Senate (OMB,

2016, p. 98). The House and the Senate are required to resolve any differences regarding the budget and adopt a single BR by April 15 of the budget year (OMB, 2016, p. 98). The BR sets limits on the amount of budget authority (BA), “the authority required to incur financial obligations that will result in expenditures,” which the appropriations can provide to governmental agencies and/or departments and which specifies a purpose for which the appropriation can be used (OMB, 2016, p. 98). Through spending legislation, Congress can change funding levels, eliminate or add programs, and make other changes. The goal of the BR is to set targets for total outlays and total receipts, budget authority, and budget deficit/surplus (OMB, 2016, p. 98). The authorization-appropriation process is an annual funding process used by Congress to fund the federal government. Theoretically, the Congress is supposed to create a new budget for each budget year, and in addition, must pass legislation that provides the legal authority to expend resources (OMB, 2016, p. 98).

An authorization bill can establish, continue, or modify agencies or programs and it allocates federally appropriated funds to new or existing programs (Saturno, Heniff, & Lynch, 2016). It is a legislative provision that establishes rules for the programs, sets the details, and permits funding, but does not actually provide funding (United States Senate, n.d.). Programs are authorized based on a time period; usually an authorization may be in effect for one-year, a fixed number of years, or an indefinite period (OMB, 2016, p. 98). Although it is ideal to have an authorization followed by an appropriation, Congress is not required to fund a program once it has been authorized. Similarly, Congress does not need an authorization for a program in order to enact an appropriation (United States Senate, n.d.).

An appropriation is the provision of budget authority that provides the actual resources to execute the specific federal programs which have been authorized (United States Senate, n.d.). There are three types of appropriation bills: regular, continuing, and supplemental. Regular appropriations are passed annually and provide the majority of the funding for the fiscal year to fund the routine activities of most federal agencies (Saturno et al., 2016). Usually, 12 regular appropriations bill are scheduled to be enacted by October 1 of each year to fund these programs (OMB, 2016). However, Congress has not

been able to enact all 12 regular appropriation bills by the deadline for any year between 2001 and 2016 (Saturno & Tollestrup, 2016). In the case that the regular appropriation bills are not enacted on time, Congress appropriates a continuing appropriation to continue operations until a regular appropriation is enacted, also known as a continuing resolution (CR; United States Senate, n.d.).

A supplemental appropriation provides funding in addition to regular appropriations. It provides budget authority generally to cover emergencies or other exceptional circumstances that cannot wait until the enactment of the next regular appropriation (United States Senate, n.d.). Congress often considers more than one supplemental appropriation measure at a time. Concurrently, with a regular appropriation or a continuing appropriation, Congress has previously included supplemental appropriations (Saturno et al., 2016). In normal situations, supplemental appropriations are governed by the same budget enforcement rules as regular appropriations.

### **3. Budget Execution**

After Congress enacts the appropriation, resources are released to the corresponding agencies/departments for which the resources were allocated as per the approved budget. Once the resources are dispersed, government agencies execute the budget (OMB, 2016). The budget execution process includes monitoring, tracking, and adjusting the allocated resources according to spending patterns. The process requires that agencies and departments monitor their spending patterns, spending to date, and spending projections for the remainder of the year (OMB, 2016, p. 103). Additionally, agencies must track obligated funds during the specified period in which funds were appropriated to ensure spending is in accordance with the guidelines of the approved budget. To obligate funds means to place an order, award a contract, or receive service(s) (United States Senate, n.d.).

During the budget execution phase, budget adjustments are made to resolve overspending or prevent agencies from losing budget authority during the specified time frame (Office of the Chief Financial Officer, 2017). Conversely, governmental agencies may find the appropriation by Congress insufficient to fulfill the requirements of the

fiscal year due to unanticipated or exceptional circumstances (OMB, 2016). The budget execution process is governed by the Antideficiency Act (ADA), which prohibits spending in advance of an appropriation or in excess of the appropriation amount allocated by Congress. Therefore, federal agencies and departments must use the funds for the specific purpose(s) which Congress approved (OMB, 2016, p. 103). Historically, the government limits the use of resources, except in cases of extreme emergencies or special circumstances under which Congress may enact a supplemental appropriation (Candрева, 2017).

## **B. BUDGETING FOR EXCEPTIONAL CIRCUMSTANCES**

Sometimes there are exceptional circumstances, called contingencies. As defined by Title 10-Armed Forces U.S.C § 101 (1956), a “contingency operation” involves military action, operations, or hostilities against an enemy of the United States, which involve members of the armed forces or any operation that “results in the call or order to, or retention on, active duty of members of the uniformed services ... during a war or during a national emergency declared by the President or Congress.” Recent examples of contingency operations include the war-related activities and operations in Afghanistan and Iraq in support of the Global War on Terror because of the attacks on the United States in 2001. Contingency operations sometimes call for an increase in defense spending, causing funding requirements to exceed what was anticipated; therefore, funding contingencies require a deviation from normal budgeting practices. In these cases, the executive administration will submit a supplemental request for additional funding to augment the base budget in order to meet the unanticipated need(s) of the contingency (Williams & Epstein, 2017).

### **1. Deviations from Normal Budgeting**

Congress, along with the DOD, develops an annual defense budget for discretionary spending, which does not allocate adequate funding for conducting military contingency operations overseas. Special circumstances such as contingency operations that require the involvement of U.S. military forces in wartime activities are not normally budgeted for and require emergency supplemental funding (Under Secretary of Defense

[USD], 2009, pp. 5–6). The Financial Management Regulation (FMR) states, “DOD Components must accomplish directed contingency operations using funds available to the cognizant command or unit, independent of the receipt of specific funds for the operations” (USD, 2009, p. 5). Though funding for ongoing military contingency operations has been funded for through regular appropriations with partial or limited cost projections, contingency operations are typically budgeted for and appropriated using supplemental appropriations that have an “emergency” or “Overseas Contingency Operations/Global War on Terror (OCO/GWOT)” designation (Williams & Epstein, 2017). The BBEDCA (1985) defines an “emergency” as a situation that is “sudden ... urgent ... unforeseen ... temporary,” and requires a supplemental appropriation. Correspondingly, a supplemental appropriation provides additional funding for unforeseen needs (Saturno et al., 2016). However, the terms *supplemental*, *emergency*, and *contingency operations* are not interchangeable but often overlap. For example, supplemental appropriations sometimes fund contingency operations that are designated as emergencies but not all contingency operations are deemed an “emergency.” Supplemental appropriations also fund non-emergency situations such as disaster relief (Candrea, 2017, p. 14). In addition, deviations can include appropriations in lump sum amounts provided by Congress in special accounts (Williams & Epstein, 2017). Those special accounts are like an emergency transfer account; one type of special account is the Defense Emergency Response Fund (DERF), which is an account specified to use in the case of “emergencies.” Emergencies designated by Congress and the president are thereby exempt from procedural budget enforcement mechanisms (BBEDCA, 2015).

## **2. Budget Enforcement**

The federal government uses budget enforcement mechanisms to control revenues, spending, and deficits. Currently, the primary enforcement mechanism that affects budgeting for contingencies is the Budget Control Act of 2011 (BCA; OMB, 2016). As previously mentioned, the BCA amended the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA) by reinstating “spending caps” on the amount that the government can provide in the appropriation for discretionary spending. The budget authority is classified as either “mandatory” or “discretionary” in the

appropriation to indicate how the budget authority is controlled. Usually, if the budget authority is provided for through an annual appropriation, then the budget authority is considered discretionary; if the budget authority is provided for through authorizing legislation, the budget authority is mandatory (OMB, 2016, p. 109). Most federal programs such as defense, education, and transportation programs are funded using discretionary funds and thus are subject to budget enforcement rules, while; entitlement programs such as Social Security and Medicare are mandatory spending because they are benefit programs for which the federal government has a legal obligation to pay those who meet the criteria of eligibility to receive payment and which are not subject to budget enforcement rules (Congressional Budget Office, n.d.-b).

The BBEDCA requires the OMB to calculate the total sum of the appropriation bills each year and report if any appropriation for “discretionary spending is enacted in excess of the statutory limits” of the budget caps (Saturno et al., 2016, p. 15). The BCA of 2011 states that if an appropriation is enacted in excess to the spending limit, a process called “sequestration” occurs in accordance with the guidelines stipulated in the BCA. Budget sequestration was first authorized by the BBEDCA, but sequestrations still trigger automatic across-the-board cuts to discretionary spending in the same way. In addition, to deficit control enforcement, all legislation formulated during the budget process is subject to a set of budget enforcement rules that are associated with the Budgeting and Accounting Act of 1921, the BBEDCA, and the Antideficiency Act, as well as the additional limitations set by the BCA (Candrea, 2017; Williams & Epstein, 2017). Because there is no enforcement (other than political will) of the definition of an “emergency,” if Congress wishes to increase the spending above the caps to avoid the sequestration process, it could simply deem the additional spending an “emergency.”

### **C. PRINCIPLES OF SOUND PUBLIC BUDGETING**

Government budgets have been described as a form of social and legal contract between the branches of government, and between the government and the citizens (Wildavsky & Caiden, 2001). A contract is a set of mutual promises or an agreement between parties that each will do something. In a budget, the executive branch essentially

promises to execute the programs that are proposed, and the Congress agrees to fund those programs. Sound public budgeting ensures that the expectations of the citizens for those programmatic outcomes are made explicit through legislation (OECD, 2014). As a contract between the government and the citizens, there is an expectation that the budget be comprehensive, accurate, and reliable. The objective is to strive for good governance through a budgetary process that considers and funds policy proposals, while serving as a basis of accountability. It is understandable that contingencies could alter a carefully considered plan. The World Bank's *Public Expenditure Management Handbook* (1998) describes 10 characteristics of effective public budgeting. Those characteristics are in italic font and discussed in the following paragraphs.

*Comprehensive* and *disciplined* describe the fact that all spending is captured in the budget, and that those involved in the budgeting process will follow the established processes and rules. Discipline is needed not only in moving through the critical steps of the bureaucratic processes, but also includes staying within revenue and expense limits. Budgets should not overcommit resources, and policy-makers must take into consideration the future resourcing needs when making decisions (World Bank, 1998). Defense-related examples of a lack of comprehensiveness can be found in the budgets for classified programs. In some cases, those programs are presented as aggregates with no information about their content; in other cases, only the title of the program is provided (an unclassified code word) but the program description is blank in the budget (Candрева, 2017). A lack of process discipline can be seen when a BR is not passed or an appropriation bill is not completed by the start of a fiscal year. Missing a deficit reduction target is evidence of a lack of discipline in the amount of spending.

*Legitimacy* plays an integral role in ensuring that policy-makers implement the budget appropriately by involving them in the formulation of that budget (World Bank, 1998). In a defense setting, legitimacy is obtained by having the service secretaries, other political appointees, service chiefs, and other senior officers brief the budget and testify about the policies and programs that the budget would fund. It also includes the professional staff of the congressional defense committees to seek feedback from the DOD when the DOD proposes a change to the budget. In a contingency environment,

those responsible for addressing the contingency should have significant input on the budget. For the DOD, that would mean input from the combatant commanders in charge of that geographic area (e.g., CentCom for the Middle East) or strategic capability (e.g., SpecOps).

*Flexibility* is about allocating decision rights on spending to the level most appropriate based on where the best information is located. In a routine environment, this would mean that managerial decisions should be made by those who implement policy and policy decisions should be made by the senior civilian and military leadership (World Bank, 1998). In a contingency environment, flexibility is crucial in the early stages of the crisis, which, is also the time when information is widely dispersed. This would suggest that the legislature or military leadership should not overly prescribe how the funds should be spent, but would require more delegation authority than usual. Funds required when responding to the emergency either must be in a pre-existing emergency transfer account that is accessible only under specific rules, or must be rapidly appropriated through a supplemental appropriation bill.

*Predictability* is about policy-makers knowing the needs of the program and the resource flow for which they are funding. The information policy-makers use to implement policies and programs in balancing the short-term with the long-term budget requirements is crucial for effective and efficient policy implementation. The budget should be predictable in terms of money, time, and need to adequately fund programs appropriately, in a timely manner (World Bank, 1998). The budget process includes developing detailed data based on assumptions that stem from predictions based on past occurrences. For example, assumptions are based on previously enacted appropriations, budget events which are reoccurring, long-standing programs, economic history, history of government spending and revenue, and other considerations. The restraint of predictability throughout the budget process that is placed upon policy-makers ensures that the decisions regarding funding existing government programs are made in a timely fashion. This allows policy-makers adequate time to manage resources more efficiently and to plan funding for approved policies/programs within the time frame of the annual budget cycle. In addition, there is an inherent component of predictability in the budget



process; the budget timeline is outlined through a very specific order of scheduled budget events depicted through a detailed budget calendar. Accordingly, predictability is about balancing the needs of future based upon the details of the past, and doing so in a timely manner. In the case of responding to emergencies, predictability does not apply, as emergencies are considered as unforeseen events for which there is not necessarily an established precedent and which, therefore, may not be able to be handled in a predictable manner. Emergencies are inherently unpredictable and require that needs be met according to last minute requests. Unpredictability of funding weakens the operational performance of the budget and lessens the legitimacy of policy changes resulting from last minute changes.

*Contestability* ensures continual improvement to existing policy's performance through review and evaluation. Therefore, a careful balance between the two must exist (World Bank, 1998). Policy-makers, Congress, other government officials, and the federal agencies all have a duty to provide "checks and balances" throughout the budget process. One example is the relationship between the executive branch and Congress during the budget process; the president creates a budget proposal and transmits it to Congress which then will, with the secretaries of the departments along with the OMB, review the budget proposal before completing the decision-making process and readying the budget for final approval and execution (OMB, 2016, pp. 97–99). Contest participants do not apply only to actors of the budget process; but, also to the terms. The separation of discretionary spending and mandatory spending, its implementation in the budget, and the execution by the federal agencies are all dependent upon careful review and evaluation of current and past policies. During the execution phase contestability plays a huge role in the affiliation of laws imposed by Congress on how the government agencies may or may not spend or obligate an appropriation (OMB, 2016, p. 103). For example, asking for funds for an unauthorized program may challenge the principle of contestability. For the DOD and the services, contestability of information ensures that implemented policies are continually improving to reflect the evolving nature of military activities. Decision-makers may be unable to effectively set policy priorities without an

evaluation of the policies and improving the criteria to support higher performance capability (GAO, 2017).

An *honest* budget process requires unbiased projections about both revenue and expenditures; it is vital to a successful implementation of the government's priorities where sources of bias can come from political objectives and influence national policy (World Bank, 1998). The budget is comprised of projections made by decision-makers about the effects of various economic and technical assumptions, which can alter budget estimates by billions of dollars with the slightest change in an assumption (OMB, 2016, p. 98). In the time of an emergency, policy-makers cannot formulate an honest budget due to a lack of knowledge of the details of the emergency; therefore, decision-makers in government may be motivated to introduce biased projections. For example, to avoid cuts to costly programs, decision-makers may only highlight economic growth (Krol, 2014, p. 99). Optimistic projections can soften the budget and affect strategic priorities setting, which can lead to policy-makers implementing and executing the policy priorities ineffectively and inefficiently (World Bank, 1998).

Accurate *information* on costs, outputs, and outcomes reinforces honest projections from policy-makers in the form of reliability throughout the decision-making process. It is necessary to have accurate, relevant, and timely information to make unbiased projections on costs (World Bank, 1998). Clear factual reports should include all budgetary information relevant to make sound decisions (including the full financial costs and benefits of the budget decisions, and the impacts thereof) and be made accessible to all government participants for review (OECD, 2014). Normally, a fully published budget document includes all necessary and relevant budget data and is presented in a clear and timely manner. When budgeting for contingencies and/or emergencies, there are problems with the quality of information given with the budget request by the services, and the cost information associated with contingency operations can sometimes be lacking due to the restriction of details related to the military operations. Programs that are funded through non-traditional means like supplemental appropriations should be fully explained in the framework of the budget document

(OECD, 2014). Improperly defined costs associated with military operations may cause policy-makers to appropriate funds improperly.

*Transparency* and *accountability* deal with the accessibility of all relevant information within the budget document. It must clearly communicate to the government and citizens alike which priorities policy-makers considered during budget formulation, what information was relied upon to make decisions, and the results of their cost projections (World Bank, 1998). Transparency demands that the information used in the budget be published to the public. Accountability entails that the decision-makers are held responsible for their decisions and thus are held responsible for programmatic outcomes (World Bank, 1998). Budget execution reports are essential to accountability; the report includes in-year and year-end information on program performance and value-for-money information for future budget allocation decisions. During the normal budget year, Congress has the time to hold forums to facilitate an effective discussion on policy choices. During this deliberation, there are a lot of details in the budget and appropriations bills to determine policy guidelines; hence, accountability can be placed on policy-makers' *ex ante* (OECD, 2014). In an emergency, information may be classified, unknown, or underdeveloped, and cost projections may be undetermined. When details are lacking, policy-makers must make hasty policy decisions and accountability can occur only after the fact.

A sound budgeting system focuses on stimulating the trust between the government and the people by creating a plan that is likely to be implemented. It aims to achieve legitimate objectives, through means based on good information, and to effectively use no more than the available resources. The budgeting process should incorporate all levels of the government through a comprehensible, consistent, and coordinated effort (OECD, 2014). Although budgeting practices vary, the principles of sound public budgeting are a guide to achieve the main objective. The intent of the principles should be implemented throughout the entire budgetary process to meet the expectations of policy-makers (World Bank, 1998).

When faced with a contingency, that ideal environment no longer exists. Information is incomplete and dispersed. Funding cannot wait for months- or years-long

routine processes because an immediate release of funding is necessary. An effective response to the exigency will demand a compromise of discipline for an increase in flexibility. Accountability must come after the fact rather than through ordinary ex ante authorization or appropriation structures. Transparency may be clouded by a fast-moving environment. In some ways, these ideals are compromised. Policy-makers need to consider in advance how those compromises should best occur through budgeting for contingencies.

#### **D. CONCLUSION**

Under routine conditions, the DOD is expected to formulate a defense budget that supports U.S. strategic priorities. That budget should proceed through a legitimate process overseen by Congress and result in authorizations and appropriations that enable, prescribe, and when necessary, restrain the actions of the military in achieving its mission. That budget, the budget process, and the associated decisions made during formulation and enactment should meet the ideals described in section C on principles of sound public budgeting. Formulating a sound public budget requires time and early planning. The defense budget process is approximately two years long, time that is usually unavailable during an emergency (OECD, 2014).

Because of the inherent urgency of a true emergency, ideal budgeting conditions are not present. Information is scattered and unreliable. A response is demanded hastily, shortening the decision process time. The executive branch responds immediately, but there is little the legislature can do besides provide additional funding and authorities. Seeking broad input and contesting policy options would interfere with rather than enhance the goal. There is nothing yet to oversee or regulate. Emergency response funds with clear rules to access them can provide some immediate flow of funds, in the instance of a predictable emergency, such as weather-related natural disasters. Military contingencies, however, are not as common or as easily determined and are often far more expensive.

Thus, the ideals of public budgeting are expected to be unattainable in a military emergency when flexibility and timeliness of funding is paramount and decisions

regarding costs are not based on reliable information. The government may choose to err on the high side, to ensure an effective response, compromising discipline with respect to deficit targets. Decision processes would be hurried, eroding legitimacy and contestability. Therefore, one can expect to see the legislature appropriate supplemental funds sufficient for the near term (less than a year) activities. One would not expect to see a refined budget, with amounts in the typical categories of personnel, operations and maintenance, and procurement, but rather an account that grants the military broader discretion, providing the necessary amount of flexibility.

Should the duration of the military operations extend beyond the lead-time of the normal budget process, there is less need for flexibility, and one would expect to see the budgeting practices move closer to the ideal. Doing so, would allow more time to collect better information, deliberate, and follow routine processes thus having the ability to hold military officials accountable throughout the budget process. The legislature could, with more confidence, appropriate funds with more reliability into the routine accounts. Ideally, the concepts of emergency, contingency, and supplemental are applied as intended. It may even become possible to return to comprehensive budgeting with both the base requirements and war requirements in one appropriation as seen in previous eras, like the Vietnam War era.

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### **III. CONTINGENCY BUDGETING BETWEEN FY01 AND FY16**

When the Twin Towers in New York City were attacked by terrorists on September 11, 2001, many citizens were killed, and the United States was in a state of grief. There was not a precedent set for budgeting and how to fund for a crisis; thus, policy-makers deviated from normal budgeting practices in support of the Global War on Terror. In response to the terrorist attacks, the military operations abroad in Iraq and Afghanistan were comprised of both war-related activities as well as non-war-related activities. Congress approved lump sums appropriations for special accounts to meet unanticipated wartime needs (Williams & Epstein, 2017).

The wars in Afghanistan and Iraq included five major military operations: Operation Enduring Freedom (OEF), Operation Freedom's Sentinel (OFS), Operation Iraqi Freedom (OIF), Operation New Dawn (OND), and Operation Inherent Resolve (OIR; Williams & Epstein, 2017, pp. 14–15). In support of the military efforts in the Middle East, Congress used two types of appropriations to fund war-related and non-war-related contingency operations in Iraq and Afghanistan, emergency appropriations as well as supplemental appropriations. With the use of different labels, military operations conducted overseas since the terrorist attacks on September 11, 2001, have mostly used supplemental appropriations to fund any overseas contingency operations under the designation of an “emergency.” Since 2001, there have been two defense budgets, the base budget and the emergency supplemental account for overseas contingency operations that is funded for and appropriated in parallel (Candrea, 2017).

This chapter illustrates how contingency operations were actually funded by the president and the Congress between FY01 and FY16, includes a list of all contingency-related funding, and discusses the budgeting practices in light of that data. It focuses on the evolution of budgeting practices during 2001–2016 and any significant changes and the motivation for those changes. It highlights the use of supplemental appropriations to fund programs designated as an “emergency” and/or “overseas contingency operations” and the effects that doing so had on the budgeting process.

## **A. SUPPLEMENTAL APPROPRIATIONS BETWEEN FY01 AND FY16**

From September 2001 to December 2016, there were a total of 28 supplemental appropriations enacted for both war-related and non-war-related activities (Congressional Budget Office, n.d.-a). In addition, billions of dollars of discretionary funds were appropriated by Congress each year in regular appropriations to fund disaster relief and other emergencies related to natural disasters (Bogie, 2016).

Immediately following the attacks of 9/11, President George W. Bush requested from Congress an emergency supplemental appropriation act in the amount of \$20 billion for “Recovery from and Response to Terrorist Attacks on the United States” (Congressional Budget Office, n.d.-a). A supplemental appropriation was necessary due to the extraordinary expenses; also, it was 12 days before the end of the fiscal year (Congressional Budget Office, n.d.-a; OMB, n.d.). Congress immediately passed a \$40 billion supplemental appropriation with very little restriction of use (Candrea & Jones, 2005, p. 6). The first supplemental appropriation was placed in the DERF, an account Congress specified to be used in the case of “emergencies.” The DERF was initially created in FY90, and it was available for Congress to reimburse the DOD for money used in assisting in disaster relief. But, the DERF was seldom used between 1991 and 2001 (Candrea & Jones, 2005, p. 4). Post-9/11, Congress used the DERF account to provide obligation authority because it was available and a convenient way to disburse appropriations with little restrictions on use in times of crisis (Candrea & Jones, 2005).

In 2002, two additional supplemental appropriations were enacted, on January 10 and August 2, in the amount of approximately \$45.3 billion total; both were for “Recovery from and Response to Terrorist Attacks on the United States” (OMB, n.d.).

The regular appropriation for FY03 was enacted in October 2002 in the amount of \$2,159.9 billion (Congressional Budget Office, n.d.-a). That year, there were also four supplemental appropriations enacted; the first was in April, in the amount of \$79.2 billion for the “Emergency Wartime Supplemental Appropriation Act, 2003,” the second was in August, in the amount of \$1 billion for “Emergency Supplemental Appropriation for Disaster Relief Act, 2003,” and the third supplemental appropriation of \$0.9 billion was



enacted only a day before the FY04 regular appropriation enacted in the amount of \$2,292.8 billion for “Emergency Supplemental Appropriation Act, 2004.” The last occurred in November in the amount of \$87.6 billion for “Defense and the Reconstruction of Iraq and Afghanistan” (Congressional Budget Office, n.d.-a; OMB, n.d.).

Between FY03 and FY10, supplemental appropriations became the standard budgeting practice to fund the costs of the wars in Afghanistan and Iraq, and any associated military operations in support of the Global War on Terror (Candрева, 2017). Following the invasion of Iraq in March 2003, Congress ceased using the DERF because the DOD treated DERF as a direct cite fund, where there was no distinguishability between appropriation accounts (e.g., no difference between funds for Operations and Maintenance [O&M], Military Personnel, Navy [MPN], and Procurement in place of funds for contingency operations). Instead, Congress created the Iraqi Freedom Fund (IFF) to fund contingency operations in support of the Iraqi War, stipulating that any remaining balance in the DERF should be transferred to and merged with the IFF (Young, 2003). The funds from the IFF were provided in the traditional appropriation accounts and transferred to the various appropriations to meet the most urgent requirements after enactment (Belasco, 2014).

In August 2004, a DOD Appropriations Act in the amount of \$28.2 billion was enacted only a month before a second Emergency Supplemental Appropriation Act in the amount of \$2 billion was enacted, and less than a month until the FY05 regular appropriation enacted in the amount of \$2,472 billion (OMB, n.d.). Two weeks after the enactment of the FY05 appropriation, an Emergency Supplemental for “Hurricane Disaster Assistance Act, 2005” was enacted in the amount of \$14.5 billion right before the start of the new fiscal year in response to four hurricanes striking the southeast part of the United States, within a six-week span, resulting in an estimated \$70 billion in damages (Congressional Budget Office, n.d.-a; “2004–Hurricane Charley,” n.d.). In 2005, the United State experienced three major hurricanes, Hurricane Katrina, Hurricane Rita, and Hurricane Wilma, which all occurred within a 60-day period. Hurricane Katrina alone caused over \$100 billion in damages, and it was deemed the costliest hurricane in

the U.S. history. Other natural disasters during that year caused over \$30 billion in damages (Hurricanes, n.d.). During this time, over \$80 billion were funded using supplemental appropriations, with the majority of the funds being provided for in 2005 in association with Hurricane Katrina and in 2008 to the Department of Homeland Security (DHS), in response to the midwest flooding and hurricanes Ike and Gustav (Lindsay & Murray, 2014).

It is important to highlight the number of natural disasters that occurred during 2001– 2016 to understand the fiscal tension of the United States during that time. When a natural disaster is declared by the president, the Federal Emergency Management Agency (FEMA) is permitted to use funds that are provided through regular annual appropriations to provide disaster relief. The funds are appropriated through a “no-year” account labeled the Disaster Relief Fund (DRF), which allows unused funds to be carried over; these funds do not expire, and any balance remaining is rolled over to the next year and can be used for future years (Bogie, 2016). When funds in the DRF are consumed or close to being depleted, the president can request a supplemental appropriation from Congress (Bogie, 2016). Natural disasters that do not fall under the normal non-catastrophic category receive supplemental appropriations; these appropriations are in addition to the regular annual appropriations and have practically no limit. In these cases, the president must first issue a formal disaster declaration before a supplemental appropriation can be approved (Bogie, 2016).

There were a total of five supplemental appropriations enacted in 2005. In May, an “Emergency Supplemental Appropriation Act for the Defense, the Global War on Terror, and Tsunami Relief, 2005” was enacted in the amount of \$82.1 billion (Congressional Budget Office, n.d.-a). In early August, there was a supplemental appropriation in the amount \$1.5 billion for “Department of the Interior, Environment, and Related Agencies Appropriations Act, 2006” (Congressional Budget Office, n.d.-a). In September, an Emergency Supplemental Appropriation Act of \$10.5 billion was enacted to assist in the disaster relief requirements that were identified immediately following Hurricane Katrina (Congressional Budget Office, n.d.-a). The very next week and for the exact same reason, a second Emergency Supplemental Appropriation Act, in

the amount of \$51.8 billion, was enacted (Congressional Budget Office, n.d.-a). The two emergency supplemental appropriation bills mostly funded the DRF after Hurricane Katrina devastated the Gulf Coast of the United States (Lindsay & Murray, 2011). In 2005, \$82 billion of supplemental appropriations was approved for wars; this included approximately \$10 billion for non-emergency items (Weisman & Murray, 2005). In October 2005, the regular the FY06 appropriation in the amount of \$2,655.1 billion was enacted (OMB, n.d.).

In 2006, there were two supplemental appropriations, one in June in the amount of \$94.4 billion for “Defense, the Global War on Terror, and Hurricane Recovery, 2006” and the second in late September in the amount of \$0.2 billion for “DOD Appropriations Act, 2007” (Congressional Budget Office, n.d.-a). The FY07 appropriation was enacted two days later in the amount of \$2,728.7 billion (OMB, n.d.).

During 2007, there was only one supplemental appropriation for a total of \$120 billion for “U.S. troop readiness, veterans’ care, Katrina recovery and Iraq accountability Appropriations Act, 2007” (Congressional Budget Office, n.d.-a). Less than five months later the FY08 regular appropriation in the amount of \$2,982.5 billion was enacted (OMB, n.d.).

In 2008, there were three supplemental appropriations. The June Supplemental Appropriation Act, 2008 was enacted in the amount of \$115.8 billion for FY08 and \$85.2 for FY09, and on the last day of FY08, a “Disaster Relief and Recovery Supplemental Appropriations Act, 2008” was enacted in the amount of \$22.9 billion (Congressional Budget Office, n.d.-a). The next day, the regular FY09 appropriation was enacted for \$3,517.7 billion (OMB, n.d.).

The next Supplemental Appropriation Act, 2009 was enacted in June 2009 in the amount of \$105.9 billion for “spending in the Iraq War and Afghanistan War during the 2009 fiscal year” (Congressional Budget Office, n.d.-a; see Figure 2). The FY10 regular appropriation was \$3,457.1 billion enacted in October 2009 (OMB, n.d.).

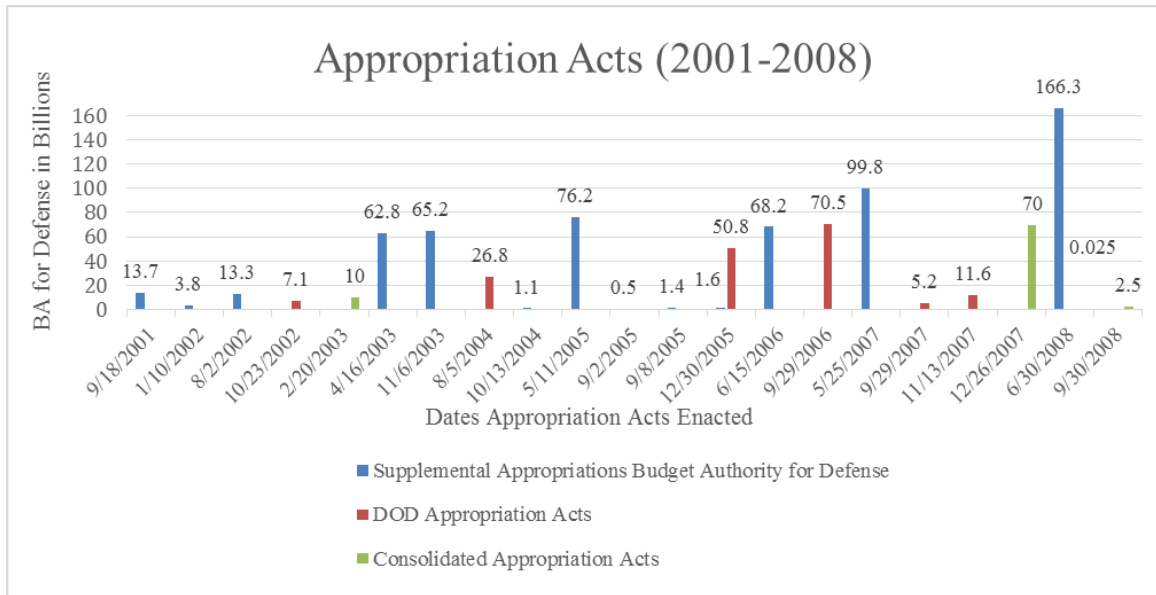


Figure 2. DOD Appropriation Acts Enacted (2001–2008) in Addition to the DOD Regular Appropriation Bills. Adapted from Belasco (2014); Congressional Budget Office (n.d.-a).

A new president was elected in FY09, resulting in a decrease in the use of supplemental appropriations to fund military operations in relation to the Global War on Terror. Between 2001 and 2008, there were 23 total appropriation bills enacted for defense in addition to the regular appropriation bills enacted during this time. Of these, 14 were supplemental appropriations (eight that were directly related to war-related activities). The next Supplemental Appropriations Act, 2010 was enacted in July 2010 in the amount of \$55.5 billion (Congressional Budget Office, n.d.-a). Two weeks later, a supplemental appropriation was enacted for \$.05 billion for “an Act making emergency supplemental appropriations for border security for 2010, and other purposes” (not stated) (Congressional Budget Office, n.d.-a). FY11 and FY12 were absent of any supplemental appropriations; the regular appropriation amounts were \$3,603.1 billion and \$3,537 billion, respectively (OMB, n.d.). The FY13 appropriation was \$3,454.7 billion enacted in October 2012, three months before the next Supplemental Appropriation for \$50.5 billion was enacted in January 2013 for disaster relief (Congressional Budget Office, n.d.-a; OMB, n.d.). The FY14 appropriation was \$3,506.1 billion, and nine months later, an Emergency Supplemental Appropriation Resolution, 2014 was enacted for \$0.02

billion (OMB, n.d.; Congressional Budget Office, n.d.-a). Two months later, the FY15 appropriation was enacted in the amount \$3,688.3 billion, and then a year later the FY16 appropriation of \$3,951.3 billion was enacted (OMB, n.d.). A couple of days before the FY17 appropriation was enacted for \$4,147.2 billion, a supplemental appropriation for \$1.2 billion was enacted for “continuing appropriations and military construction, veterans’ affairs, and related agencies Appropriations Act, 2017 and Zika response and preparedness Act” (Congressional Budget Office, n.d.-a; OMB, n.d.). The last supplemental appropriation of 2016 occurred in December in the amount of \$10.1 billion for “further continuing and Security Assistance Appropriations Act, 2017” (Congressional Budget Office, n.d.-a; see Figure 3). The total amount of OCO funding the DOD received since the September 11, 2001 attacks, exceeds \$1.6 trillion (see Figure 4). Between 2009 and 2016, there were only 11 total supplemental appropriation bills enacted in addition to the regular appropriation bills enacted during this time. From 2001–2009, a total of \$573.9 billion was provided for in supplemental appropriation budget authority for Defense compared to \$119.5 between 2009 and 2016. Of the total amount of \$693.5 of supplemental appropriation bills enacted, there was an approximate 80% decrease in the use of supplemental appropriations during 2009–2016 (numbers do not add up due to rounding) and a significant decrease in the total number of supplemental, DOD, and consolidated appropriation acts during that time from 23 to 11.

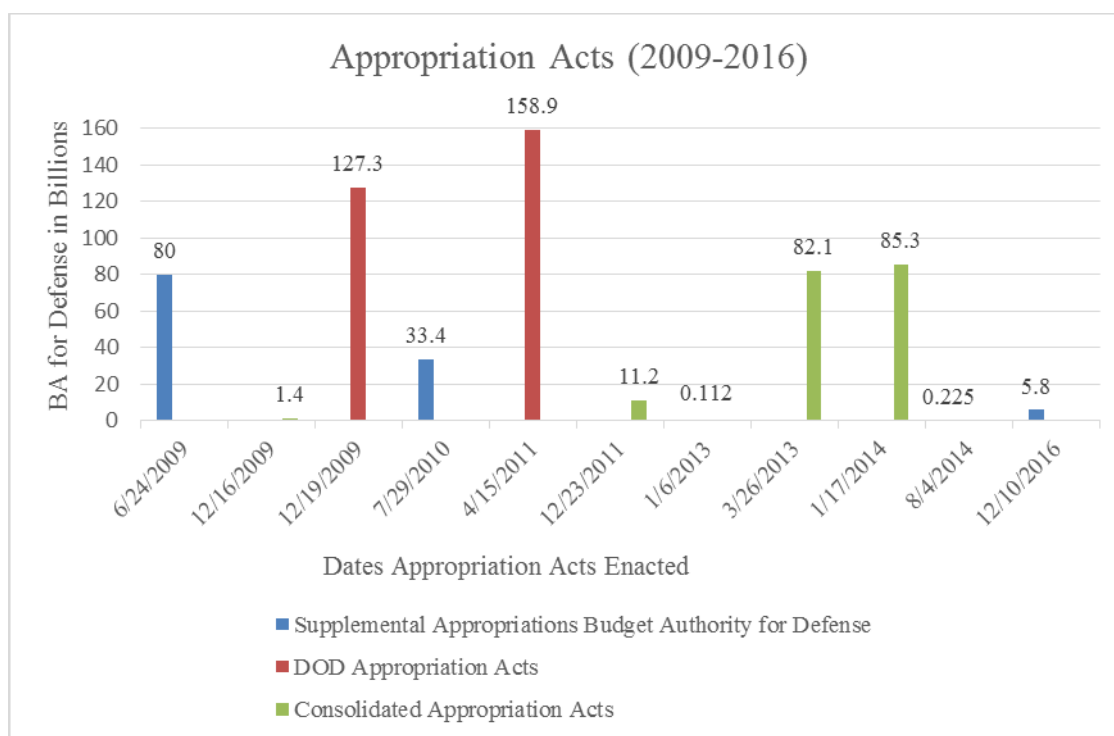


Figure 3. DOD Appropriation Acts Enacted (2009–2016) in Addition to the DOD Regular Appropriation Bills. Adapted from Belasco (2014); Congressional Budget Office (n.d.-a).

**Figure 1-2. Department of Defense Topline Since September 11th Attacks**

(\$ in billions)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Base	287.4	328.2	364.9	376.5	400.1	410.6	431.5	479.0	513.2
OCO	22.9	16.9	72.5	90.8	75.6	115.8	166.3	186.9	145.7
Other*	5.8	--	--	0.3	3.2	8.2	3.1	--	7.4
<b>Total</b>	<b>316.2</b>	<b>345.1</b>	<b>437.5</b>	<b>467.6</b>	<b>478.9</b>	<b>534.5</b>	<b>600.9</b>	<b>665.9</b>	<b>666.3</b>

(\$ in billions)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Base	527.9	528.2	530.4	495.5	496.3	497.3	521.7	523.9
OCO	162.4	158.8	115.1	82.0	84.9	63.0	58.6	58.8
Other*	0.7	--	--	0.1	0.2	0.1	--	--
<b>Total</b>	<b>691.0</b>	<b>687.0</b>	<b>645.5</b>	<b>577.6</b>	<b>581.4</b>	<b>560.4</b>	<b>580.3</b>	<b>582.7</b>

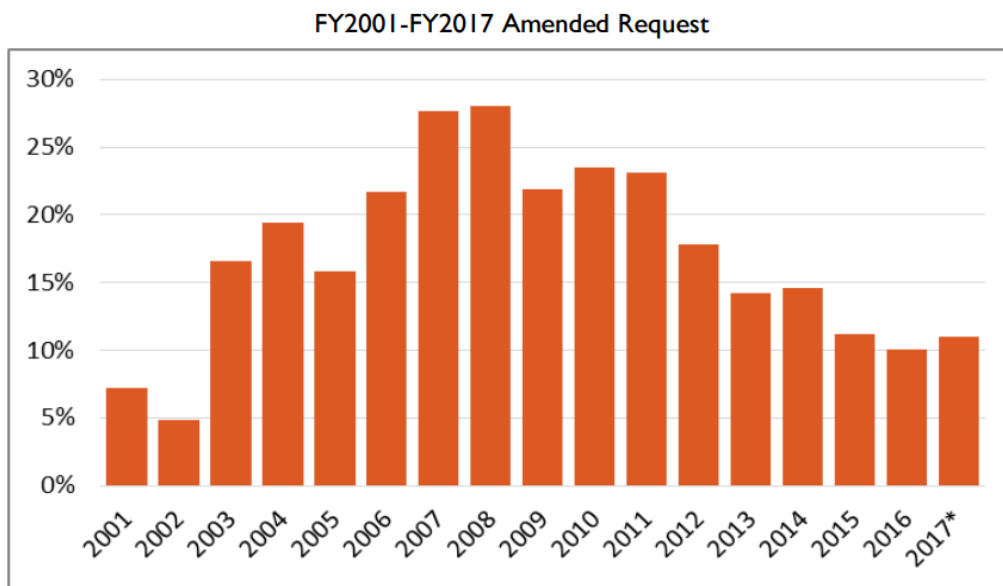
\*Other non-war supplemental funding

Numbers may not add due to rounding

The other\* amounts include additional non-war supplemental funding received by Congress.

Figure 4. Department of Defense Base/OCO/Other Funding (FY01 and FY16). Source: Office of the Under Secretary of Defense (2016).

The Overseas Contingency Operation/Global War on Terror budget amended request from 2001–2017, depicted as a percentage of the total budget authority for each year has gone from 28% at its peak in 2008 to 10% in 2016 (see Figure 5). From FY01 and FY10, approximately 24% of all military spending came from an increase in OCO funding from \$29 billion to \$691 billion. Since, OCO funding has dropped to \$59 billion (see Figure 6). Since May 2011, there has been a steady decrease in troops deployed in both Afghanistan and Iraq. From nearly 100,000 troops in May 2011 to below 10,000 troops in Afghanistan in 2016 and from a peak in September 2007 of nearly 170,000 troops to nearly zero troops in Iraq by the end of 2011 (see Figure 7).



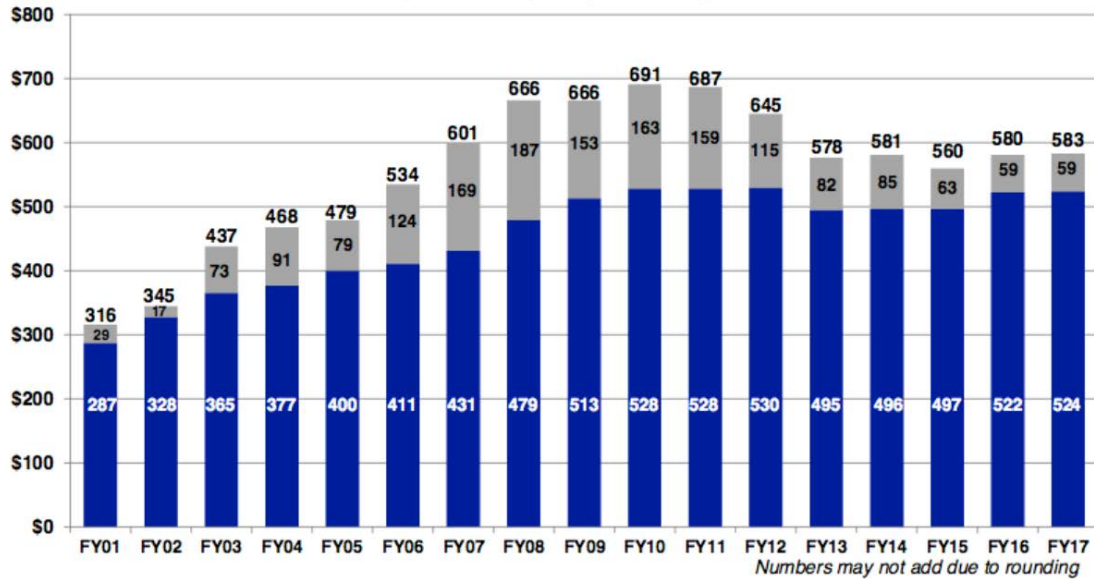
**Source:** DOD Defense Budget Overview, FY2017, Table I-2 and DOD Overview: Overseas Contingency Operations Budget Amendment FY2017.

**Note:** \* Estimate based on the FY2017 President's budget request, as amended.

Figure 5. OCO/GWOT Amounts as Percentage of Total DOD Budget Authority. Source: Williams & Epstein (2017).

## DoD Funding from 9/11 Through FY 2017 Request

(Discretionary Budget Authority)



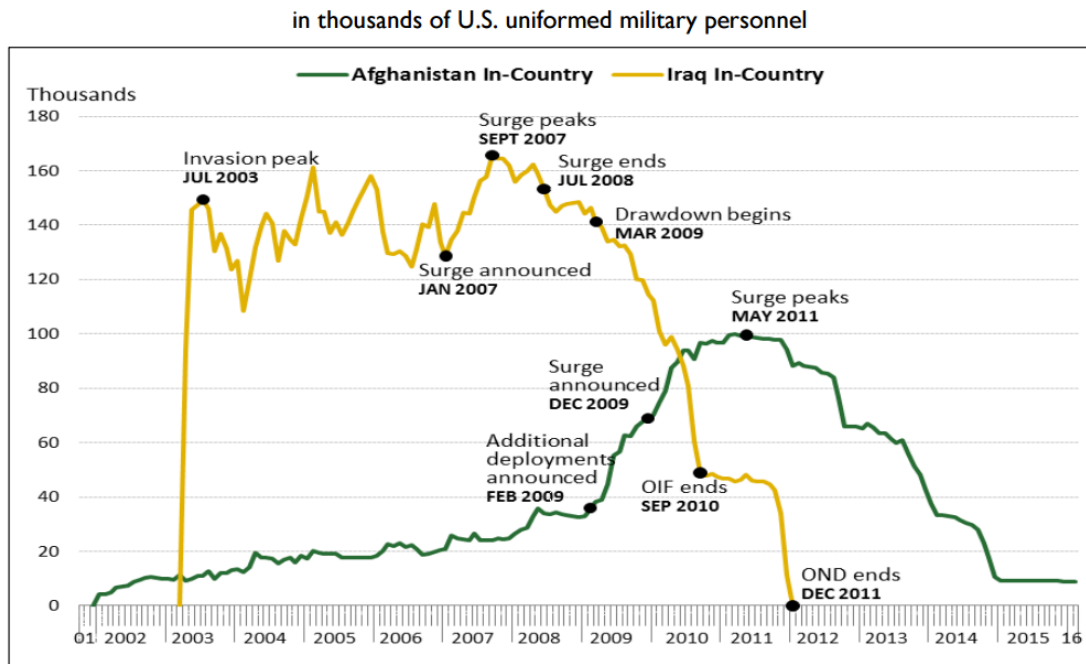
### DoD Topline, FY 2001 – FY 2017

(Current Dollars in Billions)

■ Base Budget ■ OCO/Other Budget

Figure 6. Cost of All Base and Contingency Efforts (2001–2017).  
Source: Cordesman (2016).





**Source:** DOD, Monthly Boots-on-the Ground reports provided to CRS and congressional defense committees, 2001-2016.

**Notes:** Reflects all active and reserve component U.S. uniformed military personnel in-country; excludes uniformed military personnel and civilians providing in-theater support or conducting counter-terror operations outside the region. Following the conclusion of the U.S. combat mission in Iraq, the “Boots on the Ground” monthly reports ceased providing separate force levels for Iraq. However, a residual U.S. force remained in country to provide embassy security and security cooperation assistance. Beginning in June 2014, in response to the military operations of the Islamic State, additional U.S. military personnel were deployed to Iraq through Operation Inherent Resolve (OIR) to advise and train Iraqi forces, serve as observers, and secure U.S. personnel and facilities.

Figure 7. Troops In-country (2001–2016). Source: Williams & Epstein (2017).

## B. BUDGETING PRACTICES SHIFT BETWEEN 2001 AND 2016

There was no set precedent for the executive branch for dealing with terrorist attacks against the homeland. So, in 2001, the attacks of 9/11 caused an immediate shift in budgeting practices, beginning with a significant change in Congressional delegation of budget authority to the DOD. From 2001 to 2009, all military activities and operations in response to the attacks of September 11, 2001, were collectively referred to as the “Global War on Terrorism,” or GWOT, and funding for military operations during that time were designated as an “emergency” (Williams & Epstein, 2017). Ordinarily, Congress would be reluctant to deviate from the traditional patterns of control and trust the DOD with autonomy in managing its own budget priorities. However, following the

attacks in 2001, Congress increased delegation of resources management authority to the DOD leadership; thus, the DOD received more autonomy in budget execution (Candrea & Jones, 2005). Congress explicitly used the DERF account to delegate budget authority to the DOD from September 2001 to October 2003. Its intended purpose was to provide the DOD with the flexibility needed during the state of emergency. There were no specifics of the requirements, due to limited knowledge of the nature of the operations (Candrea & Jones, 2005). It was the DOD's policy to budget for peacetime operations, so the specific amounts required by each service required extreme flexibility by the administration. The initial supplemental appropriation act provided the president with the authority to transfer the funds "to any authorized Federal Government activity." For the DOD, that meant that the funds could be used for any type of expenditure that was in response to and recovery from the terrorist attacks (Candrea & Jones, 2005). This included funds for the Department of Justice, to seek out and prosecute terrorist, other funds were used for cleanup and recovery in New York City, and funds also went to increase homeland security (e.g., airports).

Initially, the DOD spent sizeable amounts of funding from traditional appropriations accounts to fund the immediate response to and recovery from the terrorist attacks. The DOD used the DERF as a direct cite account, transferring funds from the traditional appropriation to reimburse the DERF, in violation of fiscal law. The Antideficiency Act prohibited the obligation of federal funds in advance of or in excess of an appropriation without the specific authority to do so (Candrea, 2017). Therefore, it was difficult to continue to use the DERF without the specific transfer authority to do so, which prompted, the DOD to seek and receive legislative approval for the specific transfer authority required to reimburse their traditional appropriation accounts with funds provided to the DERF (Candrea & Jones, 2005). By granting the DOD with this authority, the military deemed it acceptable to begin spending money from any appropriation with available funds for all activities related to the Global War on Terror with the idea that they would later reimburse the expended funds using the DERF.

With such little restriction of use of the DERF funding coupled with an inability for Congress to efficiently oversee the DOD, Congress asked the GAO at the beginning

of FY02 to examine the DOD's accounting practices as applied to contingency operations. The GAO report highlighted that there was "limited guidance and oversight combined with a lack of cost-consciousness which contributed to the questionable expenditure of contingency funds" (GAO, 2002, p. 3). Congress began to get stricter with the executive branch as debates over upcoming supplemental appropriations and the economic outlook of the United States gained negative attention from the congressional committees. However, in the FY03 budget, a total of \$5.4 billion for 963 projects were earmarked by Congress. Congressional earmarks diverted funds from higher priority programs to programs that were not requested by the DOD. For example, the Defense Appropriations Act in 2002 included several unrequested medical research projects exceeding \$600 million, for research on various types of cancer (Government Publishing Office, n.d.), resulting in the FY03 BR failing to pass, for only the second time since the inception of the process in 1976 (Candrea & Jones, 2005). The Bush administration became more frustrated with Congress as the war on terror expanded into Iraq in 2003. President Bush wrote a memo directed to Congress requesting that Congress authorize more flexibility and "refrain from attaching items not directly related to the emergency at hand" (Candrea & Jones, 2005). As transfers occurred from the DERF to other appropriations, the DOD commingled the funds, making it difficult for the DOD to accurately report the use of the DERF appropriations.

Congress viewed the DERF as an account where money was poured in and unaccounted for by the DOD; with the recommendation by the GAO "to improve transparency and fiscal responsibility related to funding the war on terrorism," (GAO, 2009, p. 3) Congress shut down the use of the DERF (Candrea & Jones, 2005, p. 8). In October 2003, any balances remaining in the DERF were directed to be merged with a new fund, the Iraqi Freedom Fund (IFF), established for the appropriation of specific funding for additional expenses for ongoing military operations in relation to the Global War on Terror. As the war in Iraq continued from 2004–2008, Congress reduced flexibility and tightened controls. The DOD was given reduced flexibility with the IFF and could no longer spend directly out of the DERF; instead, the DOD was now required to distribute the specific funds into the appropriation accounts after the supplemental

appropriation was enacted (Belasco, 2014). Congressional scrutiny continued through the FY05 supplemental appropriation request, as lack of oversight and relaxed restrictions were evident as non-emergency items continued to slip into emergency supplemental requests (Candrea & Jones, 2005, p. 17; Rubin, 2009). Supplemental appropriations for contingency operations were being used to pay for the temporary end strength of personnel and operating costs of naval ships, even though the funding amounts in OCO were not tied directly to those expenses (Hale, 2016). Instead of using the PPBE process to project resources needed over a five-year span to support the strategic priorities of the nation, the DOD used one year money provided by supplemental appropriations to fund items normally provided for through the base budget. As a result, the future years defense program (FYDP) costs were understated, and the service commanders were unable to plan appropriately, affecting their ability to properly describe the requirements of the military operations to Congress. In 2005, approximately \$10 billion of the \$82 billion request was for things like the construction for the Baghdad embassy and the reorganization of the army brigades, things that were neither emergent or unforeseen (Rubin, 2009).

In response to the pressure by Congress, the DOD changed the criteria for supplemental appropriations requests, allowing any and all costs associated with the “longer war on terror” to be used via supplemental appropriation funding. In 2008, over \$5 billion was included in the supplemental appropriation for basic military pay, which was normally funded for through the Military Personnel (MILPERS) fund. More so, in 2009, the DOD put a \$70 billion placeholder (which did not include any details on what the funds would be used for) to budget for contingency operations in Iraq (Rubin, 2009). The tension between the executive branch and Congress rose with regard to funding the war, and confusion and debate surrounding funding for the wars was, in part, due to the unprecedented practices during the Bush administration, but continued through the Obama administration. The DOD request began to include items in excess of the requirements, and Congress argued that such items should be included in the base budget request. In response, Congress and the OMB constricted the criteria for OCO funding (Candrea, 2017). The election of a new president, shifted the the budgeting process.

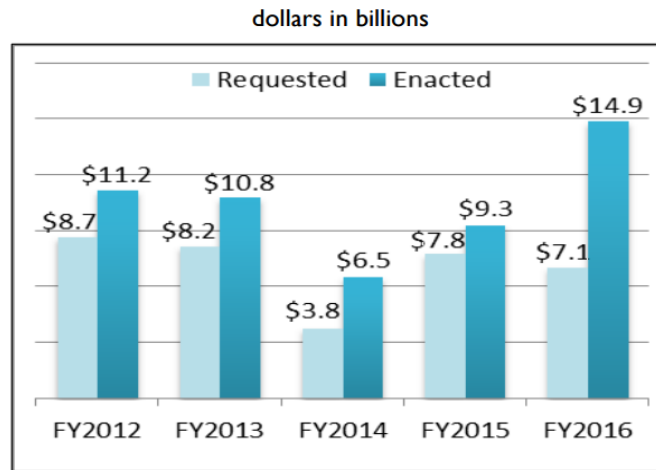
Under a new regime, President Barack Obama released “A New Era of Responsibility: Renewing America’s Promise,” a fiscal policy designed to create a separate budgetary designation for contingency funds in support of GWOT and to separate the budgetary designation, resulting in all military operations associated with the post 9/11 attacks now being labeled as “Overseas Contingency Operations” (OCO) (Williams & Epstein, 2017). Though the effort was applied to funds associated with post-9/11 military operations in Iraq and Afghanistan, the administration created a specific label to distinguish it from GWOT funds; contingencies would no longer be funded using supplemental appropriations. *Supplemental appropriations for contingency operations* is a term often used interchangeably with the OCO/GWOT budget request rather than a normal supplemental measure (Williams & Epstein, 2017). Funding for contingency operations designated as an “emergency” or as an “Overseas Contingency Operation/Global War on Terror” (OCO/GWOT) requirement would now be approved and provided for through a separate appropriation (Williams & Epstein, 2017). This new account was intended to restore funding for contingency operations. An OCO budget would be submitted in addition to and with the base budget, reserving the use of supplemental funding for situations, which qualified under the definition of use for a supplemental appropriation (Williams & Epstein, 2017). Until 2010, the costs of contingency operations in Iraq, Afghanistan, and other military operations in support of the Global War on Terror (GWOT) were funded through supplemental appropriations as the regular base budget for defense, through the DERF and IFF accounts. In 2011, in an effort to further move war-related funding back into the annual base budget cycle, the Obama administration disassociated the various supplemental accounts of GWOT with contingency funding and only used the term “Overseas Contingency Operations” (OCO) to refer to contingency funding. This account differed from the DERF and IFF accounts in that it called for the service chiefs to request funding for war-related activities at the same time the regular request for the base budget request was submitted. Even though the term evolved from GWOT to OCO, the purpose of the funding associated with these terms remained unchanged (Candrea, 2017).

With all of the changes of the new OCO mechanisms, the most significant change included the use of OCO funding for non-wartime needs (Hale, 2016). Critics note that the ability to fund non-wartime needs created ambiguity and many gray areas which Congress felt undermined the integrity of the budget (Hale, 2016). The changes also included a requirement that defense budget estimates be prepared in as much as two-years in advance; with the uncertainty of wartime activities as they changed to fit the needs of the war, military leaders wanted to provide as much cushion in their request to cover any unforeseen events that might arise during operations (Hale, 2016). Congress argued that supplemental appropriations were not meant to fund wars and that the “longer war on terror” no longer fit the definition of an emergency (Hale, 2016). In response, the OMB sought to clearly define the new OCO mechanism. The definition included the things OCO can fund such as any operations in Iraq, Afghanistan, and other countries related to the war against terror, deployment and transportation costs to wartime theaters, special war-time pay, replacement of equipment destroyed or damaged due to wartime operations or resetting equipment to restore it to a pre-war capability, and other indirect costs on a case by case basis. Additionally, the funds provided by OCO would only portray wartime costs for the upcoming year to account for the significant change in costs as the war progressed (Hale, 2016). OCO would receive special treatment under the provisions of the BCA; though not subject to the budget caps imposed by the BCA, the new OCO mechanism would be subject to sequestration if the appropriation for OCO exceeded the caps set by law. Lastly, it defined what limitations were placed on OCO funding by law, mainly related to the target set for the total OCO funding amount. When the rules and definitions changed, and called for OCO funding to be separated from the base into a separate OCO account, Congress and policy-makers began to take advantage of the OCO/GWOT account. From 2011 to 2016, Congress appropriated an additional \$560 billion for contingency operations (Candrea, 2017).

As the urgency and suddenness of the wars decreased, the FY12 DOD budget request sent to Congress reflected the change in requirements. The base budget request increased approximately 3% from the prior years request while the DOD OCO funding

request fell sharply, a 27% decrease, allowing room for congressional add-ins (Towell, 2012, p. 11). Congress added funds for the DOD “must pay” bills such as basic housing allowances, incentive pays, fuel prices and base support expenses, childcare center, barracks improvements, mental health programs, aircraft production facing line cut-offs, and National Guard and Reserve equipment (Belasco, 2014, pp. 26–27). More recently, financing non-war activities using OCO is increasing and forces the DOD to plan for and pay for long-term defense requirements by using one-year money. The new OCO mechanism introduced funding practices that were inconsistent with the DOD’s budget execution and required transferring “tens of billions of OCO dollars” back into the base defense budget (Hale, 2016, p. 2). The DOD’s FMR specified that war costs are costs incurred because troops were deployed to war and did not cover things like base pay, normal training, or planned equipment modernizations (Hale, 2016).

There is also a civil component of OCO funding that includes additional efforts that are not a part of the efforts to fight terrorists and extremists. Since 2012, Congress has appropriated more than the Department of State (DOS) requested in OCO funds that were authorized for non-war-related activities to be used in additional countries as foreign aid and other diplomatic operations (Williams & Epstein, 2017; see Figure 8). After the enactment of the BCA, Congress used the OCO account to deliberately add to the base requirements for both civil and military funding, simply to avoid the enforcement rules of the BCA (Candrea, 2017). The BCA had two components: an automatic enforcement regime intended to cut federal spending and the Joint Select Committee of Deficit Reduction also known as the “supercommittee” to develop a deficit reduction plan over a 10-year span. Failure to develop a deficit reduction plan would result in sequestration, the first across-the-board cuts scheduled to occur on January 1, 2013 (Knudsen, 2012). By December 2012, the supercommittee had failed to agree on a deficit reduction plan, thus triggering sequestration in 2013. The American Taxpayer Relief Act was not a solution but temporarily delayed sequestration by preventing the tax cuts imposed by the Bush administration from expiring as scheduled in 2012.



**Source:** Department of State Congressional Budget Justifications and the Consolidated Appropriations Act, 2016 (P.L. 114-113).

**Note:** Totals include rescissions.

Figure 8. DOS OCO Budget Authority (2012–2016). Source: Williams & Epstein (2017).

In December 2013, President Obama signed into law the Bipartisan Budget Act (BBA) of 2013, which raised the sequestration caps by \$45 billion for FY14 and \$18 billion for FY15 (see Figure 9). In 2014, the DOD transferred approximately \$20 billion in O&M funds from the base budget into the budget request for OCO. Additionally Congress moved \$9.2 billion from the base budget into the OCO appropriation. The FY15 OCO request included personnel costs, O&M costs, Procurement costs, Research & Development (R&D) costs, and Military Construction costs (MILCON) totaling nearly \$59 billion (National Security Network, 2014; Belasco, 2014). The Bipartisan Budget Act was amended in 2015, increasing spending caps again for 2016 and 2017 by \$50 billion and \$30 billion, respectively (see Figure 9). It also increased spending on OCO funding (defense and non-defense) by over \$15 billion above the president’s FY16 request (Moffit, 2015). Congress moved \$38 billion to the OCO account from the FY16 base budget request to get around the budget caps (Belasco, 2015). Still again in 2016, of the \$58.8 billion, Congress directed that \$18 billion be moved to the base budget for additional procurement to fund items on the unfunded priority list submitted by the DOD (Blakeley, 2016). The civil component costs of OCO include over \$9 billion in FY15, approximately \$15 billion in FY16 and FY17 alike (Cordesman, 2016; see Figure 9).



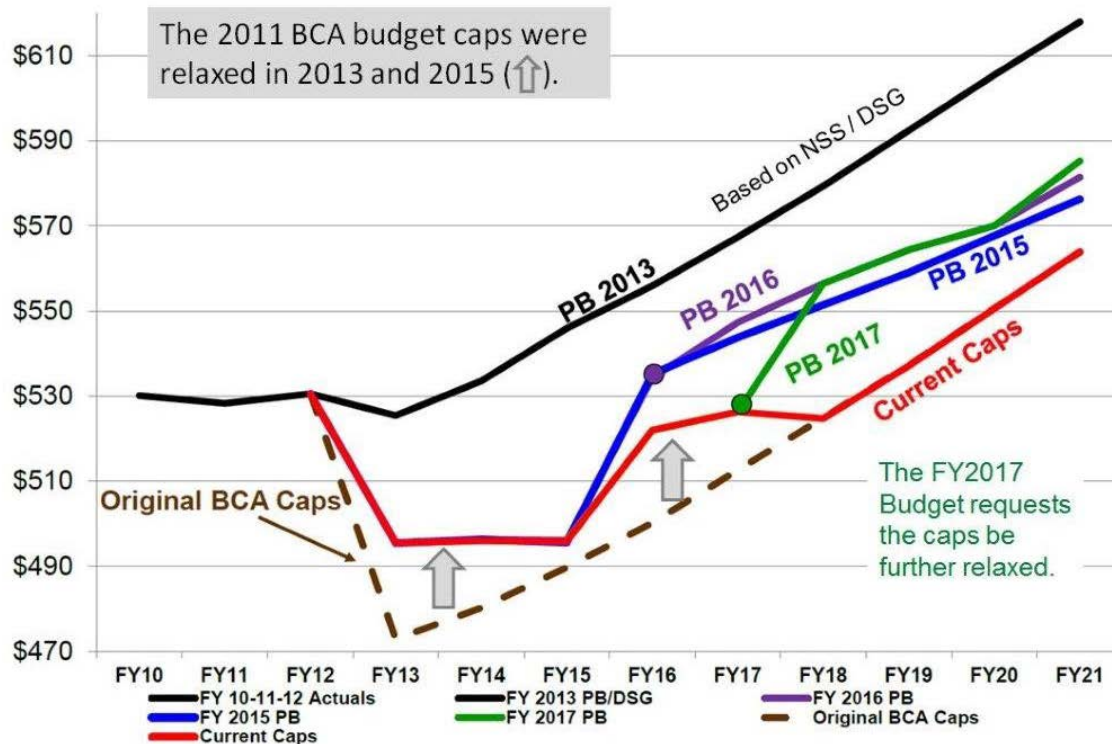


Figure 9. Defense Budget and Budget Control Act. Source: Candreva (2017).

### C. CONCLUSION

Immediately following the 9/11 attacks, Congress deviated from normal budgeting practices to provide more flexibility in the time of a crisis with little regard to the standard rules of budgeting. With an increase in flexibility, the DOD mismanaged the authority given by Congress with respect to managing the DERF, causing Congress to rescind that authority and regain control over DOD budgeting by adding restrictions to the DERF account. The executive branch desired greater flexibility and became frustrated with the congressional scrutiny over budget authority delegation. Congress determined that the DOD budgeting practices were unreliable and ceased using the DERF account, replacing it with the IFF which inherently had more strings attached. Doing so caused further tension between the president and Congress.

Between 2001 and 2008 there was a significant reliance on supplemental appropriations to fund military contingency operations overseas. After the invasion of

Iraq in 2003, the military OPTEMPO increased validating the need for more money. Natural disasters between 2004 and 2006 had a huge impact on the number of supplemental appropriations enacted during this time. Funding both the wars and the natural disaster caused a rise in the nation's deficit. In 2009, a new administration implemented new rules for funding contingencies and emergencies using supplemental appropriations. The new OCO mechanism changed budgeting practices significantly, mandating that OCO requests be submitted with and in addition to the base budget request.

In 2011, in an effort to better manage the national deficit, President Obama signed the BCA into law, which led to a sequestration threat in 2013 and two subsequent BBA which raised the sequestration caps for each year between 2014 and 2017. In order to fully fund defense, congressional leaders added money to the OCO account, which was meant for fighting the war associated with the Global War on Terror, even though the wars in Afghanistan and Iraq were winding down and there was a decrease in troop levels in-country (Martin, 2015). The ability to use the OCO funding provided Congress with the flexibility to fund additional requirements without being subject to budget caps and sequestration (Candrea, 2017). But still, Congress padded the OCO request for these years with base budget requirements to circumvent the sequestration process. In both the Pentagon and Congress, the desire to expand the base budget while seemingly maintaining fiscal responsibility motivated policy-makers to compromise the rules for budgeting to meet the expectations of stakeholders. The amount of supplemental appropriations did decrease significantly between 2009 and 2016; however, the use/misuse of the OCO appropriation still occurred.

Military operations overseas are still highly active, and war is still a threat; however, after 15 years, the idea of overseas contingency operations can no longer be considered sudden, unforeseen, or temporary. The initial threat in the Middle East demanded urgency; however, between 2001 and 2016 the threat evolved in a way in which now can be anticipated, allowing the ability to budget with foresight and comprehensiveness. Budgeting practices in both the Pentagon and Congress have evolved over the years as both organizations have at times sought flexibility for the military

mission and discipline in the process. Changes in priorities may have resulted in processes that are less than ideal. Conversely, the attempts to add discipline to the process prompts a different set of practices that also compromise sound budgeting principles. There is a compromise that exists between effective budgeting and supporting military contingency operations, for both the legislatures and the policy-makers. Sometimes policy-makers fail to create a budget that incorporates all the qualities of effective public budgeting; thus, compromises are made to achieve the objective. Supporters claim that the various practices over time are necessary to achieve success in the military contingency operations in support of the Global War on Terror. And, critics refer to the contingency operations funds as “a slush fund” that allows Congress the ability to circumvent governing budget rules which do not allow budgeting for contingencies. Due to budgeting practices continually evolving, government has emphasized the importance of incorporating successful practices that ensure the delivery of a more effective and efficient budgeting system (OMB, 2016). These are the issues explored in the next chapter.

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#### **IV. THE COMPROMISE OF SOUND BUDGETING PRINCIPLES IN CONTINGENCY FUNDING**

The overall goal of this chapter is to analyze budgeting practices for funding contingency operations between 2001 and 2016 to determine the extent to which actual budgeting practices match the ideal budgeting practices to achieve the main objective of sound budgeting. An examination of the fluctuation in budgeting practices between 2001 and 2016 determines whether the changes in national strategic priorities resulted in budgeting practices that were less than ideal. To draw a conclusion, I compared the actual practices described in Chapter III with the ideal practices described in Chapter II, discussed the different compromises among the sound budgeting principles in funding for contingency operations over time, and evaluated the impact those compromises had on budgeting for contingency operations.

I illustrated the compromises among the principles of sound public budgeting along a spectrum of high, medium, and low according to how the principles were applied in actual budgeting practices during significant periods of change between 2001 and 2016. Of the 10 characteristics described by World Bank (1998), I used only six of the principles to match the budgeting practices between 2001 and 2016. I chose flexibility, predictability, transparency, information, discipline, and legitimacy because they are the most applicable to the purpose of this research (see Table 1). I used how the principles were applied to demonstrate the compromises and the motivation for the compromises and to determine whether it was necessary or even integral for policy-makers to compromise sound budgeting principles in budgeting for contingencies versus budgeting for normal operations. Along a spectrum of high, medium, and low, I used empirical evidence of budgeting practices by Congress, the administration, and/or the DOD when budgeting practices were less than ideal and compared those practices with the qualities of the principles to see whether there was a discernible pattern among budgeting for contingencies and compromising the integrity of the budget system.

In Chapter II, flexibility was explained as senior leaders possessing the managerial authorization for making decisions on spending. A high level of budget

flexibility is seen when the budget process delegates budget authority with a high degree of resource decision autonomy to senior leadership charged with knowing and understanding the budget requests for their program needs. A medium level of budget flexibility is seen when practices do not prescribe how resources are expended and requirements are prioritized and there is a failure to exercise restraint. A low level of budget flexibility restricts budget authority delegation and prevents or delays the flow of resources for unforeseen circumstances.

Predictability discussed the importance of policy-makers knowing the program requirements and the resource flow. A high level of predictability exemplifies an understanding of both the program needs and the resource flow of funding. Other indicators of high levels of predictability include allowing policy-makers sufficient time to make decisions using detailed information from historical budget data. A medium level of predictability indicates that the implementation of policies and programs did not consider the balance between future needs and the available resources as a result in the lack of knowledge of the program requirements. A low level of predictability is seen when last-minute requests lack necessary details, resulting in disorderly budgeting practices.

Transparency dealt with the accessibility of a clearly communicated budget document and all the relevant budgetary information to the general public. A high level of transparency involves clearly communicating the priorities for which policy-makers decide on funding. It is also seen when all relevant data and costs projections result, in a timely manner, in a budget document that is accessible by the public. A medium level of transparency occurs when the budget process lacks the necessary details of funding needs and does not include program performance information on value-for-money as a basis to fully explain resource allocation or to determine future budget allocation needs. A low level of transparency deliberately withholds pertinent information relevant to the budget process or vaguely describes the use of funds. It is also seen in the application of creative budgeting measures to achieve unclear objectives unknown to the public.

The principle of information was described in the form of accuracy and reliability of projections throughout the decision-making process. A high level of information uses

accurate budgetary information on costs, outputs, and outcomes relevant to reinforce honest, unbiased estimates. A medium level of information will not present sufficient information about program funding in a timely manner to allow policy-makers time to make sound budget decisions. A low level of information improperly defines program costs, ignores relevant data, and disregards the feasibility of accurately appropriating funds, given the lack of quality of information.

Discipline was defined as moving through the critical steps of the bureaucratic process while staying within revenue and expense limits. A high level of budget discipline is seen when the budget process follows the statutes and rules, is completed on time, and adheres to revenue and expense limits. A medium level of budget discipline is seen when practices disregard the rules or takes advantage of vague or contradictory rules, or is not completed in a timely manner, or slightly misses expense limits. A low level of discipline will flaunt the rules, be disruptively late, or deliberately miss expense limits.

Legitimacy was defined as the integral piece to ensure that policy-makers involved the necessary people during the formulation of the budget to guarantee the budget was implemented appropriately. A high level of legitimacy aligns program needs with budget requests, includes feedback, and allows for significant input by service chiefs and other senior leaders. A medium level of legitimacy will not include input from senior members of the agency resulting in an appropriation of funds that is not based on strategic capabilities. A low level of legitimacy deliberately appropriates funds improperly to circumvent budget enforcement rules, commingles funds, or purposely over appropriates or inadequately appropriates funds to meet program needs.

Table 1. High, Medium, and Low Spectrum of the Application of the Sound Budgeting Principles

	<b>High</b>	<b>Medium</b>	<b>Low</b>
Flexibility	The budget practices delegate's budget authority with a high degree of resource decision autonomy to make decisions regarding program requirements.	The budget practices do not prescribe how the funds are spent, needs are not prioritized according to resource allocation, and does not exercise restraint.	The budget practices restrict budget authority delegation to "exercise control as a constitutional prerogative" by implementing bureaucratic methods that disallow the flow of resources for unforeseen special circumstances.
Predictability	The budget practices reflects an understanding of the program requirements and the resource flow for funding and includes detailed data based on past occurrences to allow sufficient time for policy-makers to make decisions.	The budget practices do not implement policies and programs that balance the needs of the future with the resources that are currently available and lack the necessary knowledge of the program requirements.	The budget practices include last minute funding requests with lacking details and dispersed information that may disrupt the budgeting process and priorities of other program needs.
Transparency	The budget practices clearly communicate the priorities upon which the policy-makers make decisions, include all relevant data and costs projections, and makes information accessible to the public for review in a timely manner.	The budget practices do not include relevant information on program performance or value-for-money for future budget allocation decisions, lack necessary details of funding needs, and do not fully explain how resources are being expended.	The budget practices deliberately withhold pertinent information relevant to the budget process or vaguely describe the use of funds, do not clearly communicate priorities to the public, and use creative budgeting to distort prescribed rules of the budget process.



	<b>High</b>	<b>Medium</b>	<b>Low</b>
Information	The budget practices use accurate budgetary information on costs, outputs, and outcomes relevant to reinforce projections, to include unbiased projections based on facts, and that are made accessible to all government participants.	The budget practices do not provide sufficient information about program funding, are not published for review, and are not presented in a clear and timely manner.	The budget practices improperly define program costs; ignore relevant data and information, and disregards quality of information and feasibility of cost.
Discipline	The budget practices follow guiding statutes and rules, are completed on time, and adhere to revenue and expense limits.	The budget practices do not completely follow the rules, take advantage of vague or contradictory rules, are not completed in a timely manner, or slightly miss expense limits.	The budget practices flaunt the rules, are disruptively late, or deliberately miss expense limits.
Legitimacy	The budget practices align program needs with the request from the agencies which the funding is for, includes feedback, and allows significant input by service chiefs and other knowledgeable members.	The budget practices do not include the inputs from the agency's senior leaders in the formulation of the budget and do not appropriate funds based on strategic capabilities.	The budget practices deliberately appropriates funds improperly to circumvent budget enforcement rules, commingles funds, or purposely over appropriates or inadequately appropriates funds to meet program needs.

## **A. MAPPING THE PRINCIPLES TO THE EVENTS BETWEEN 2001 AND 2008**

President Bush sought to maximize executive control in the budgeting process, while Congress also desired greater control. Immediately following the 9/11 attacks, the Bush administration provided funding for war-related activities using the DERF. The DERF was convenient to use in the case of an “emergency.” It had high levels of flexibility as Congress could delegate budget authority and transfer authority to the DOD using this account with little to no restrictions on use of funds. As the DERF became unmanageable by Congress, the IFF was created to impose more discipline by implementing better guidelines for use of funds while still allowing for high levels of flexibility. During Bush’s second term in office, the DOD began taking advantage of the vague rules of the IFF to increase flexibility. The administration was not good about disclosing the costs associated with the wars in Afghanistan and Iraq, which caused an increase in tension between the executive branch and Congress during that time (Rubin, 2009). This resulted in less than ideal budgeting practices by the president, Congress, and the DOD in funding for contingency operations.

### **1. DERF Period (2001–2003)**

Shortly after the chaos of 9/11, the executive branch argued that the combatant commanders should make budget decisions based on military effectiveness and national security to ensure that the defense budget properly supported the needs of the military operations. There was little pressure to balance confidentiality with discretion while funding military operations. Traditionally, Congress would shy away from delegating budget authority to the DOD but felt it necessary in the country’s time of crisis to grant an increase in flexibility to support the Global War on Terror campaign (Candrea & Jones, 2005). Ideally, due to the unforeseen nature of the terrorist attacks, Congress would be expected to grant budget authority to senior military leaders with little expectation for detailed information, resource requirements, or the resource flow for such items. As was the case, Congress delegated budget authority to the DOD with a high degree of resource decision autonomy with few to no statutes to guide the DOD’s budgeting practices. In doing so, the executive branch used emergency supplemental

appropriations extensively to fund contingency operations through the DERF account (Rubin, 2009). The DERF account had the advantage of maximizing flexibility to immediately address the requirements of items essential to the contingency operations in support of war-related activities overseas and it allowed the DOD to use the DERF as a direct cite account with little accountability or restriction of use. The balances in the DERF never expired, could be used for a wide-range of purposes, and were authorized by an appropriation whenever requested by the theater commander (Candrea, 2017).

In 2002, the DOD expended sizeable amounts of resources from other appropriation titles to fund all the military activities related to the Global War on Terror with an expectation that they would be able to reimburse the traditional appropriations using the DERF (Candrea & Jones, 2005). Under normal conditions, budgeting processes are governed by fiscal law which prohibits the use of funds to improperly augment appropriations (Candrea, 2017). The DERF lacked appropriation restrictions that were in accordance with fiscal law and the DOD took advantage of the rules by improperly defining program requirements, including last minute budget requests with vague details, and not fully prescribing how the funds were being spent. Questions concerning the validity of the DOD's budget authority delegation and ability to manage transferring funds associated with the DERF account prompted Congress to ask the GAO to investigate the DOD's accounting practices in budgeting for contingencies and examine the use of OCO funds related to and in the support of contingency operations. Typically, Congress would be expected to desire to shift practices to resemble normal budgeting practices. However, Congress sought to implement more discipline in the process by establishing better budgeting guidelines for the DOD to follow while budgeting for contingency operations. The lack of information, transparency, and predictability incited Congress to seek for greater Congressional control over budgeting practices used in funding contingency operations.

In FY03, the total budget request for the DOD included \$59.9 billion as DERF with use of funds described vaguely and using broad terms like "up to" and a request for maximum transfer authority of all funds (Candrea & Jones, 2005). Congress continued to freely give the president supplemental appropriations with no restrictions to adequately

meet program needs, but there was an increase of tension between the executive branch and Congress as the executive branch sought greater flexibility (Rubin, 2009). The Congress looked to create a better way to appropriate funds to the DOD that provided better guidance and oversight of contingency operations expenditures.

Between 2001 and 2003, the general use of the term OCO/GWOT was designated to describe military operations overseas and sometimes domestically as well; and, there was little to no distinction between what was funded for defense and what was funded for contingency operations. This designation shifted the congressional procedures that related to OCO/GWOT funds by providing more procedural flexibility and less budgetary enforcement beginning immediately after the attacks of 9/11. In this period, there was high flexibility with an attempt to legitimize budget efforts by having combatant commanders make decisions. But the Bush administration and the DOD made compromises among the principles of information, predictability, discipline, and transparency. Because of the lack of details and the suddenness of events, there were no set rules to guide budgeting practices during that time (see Figure 10).

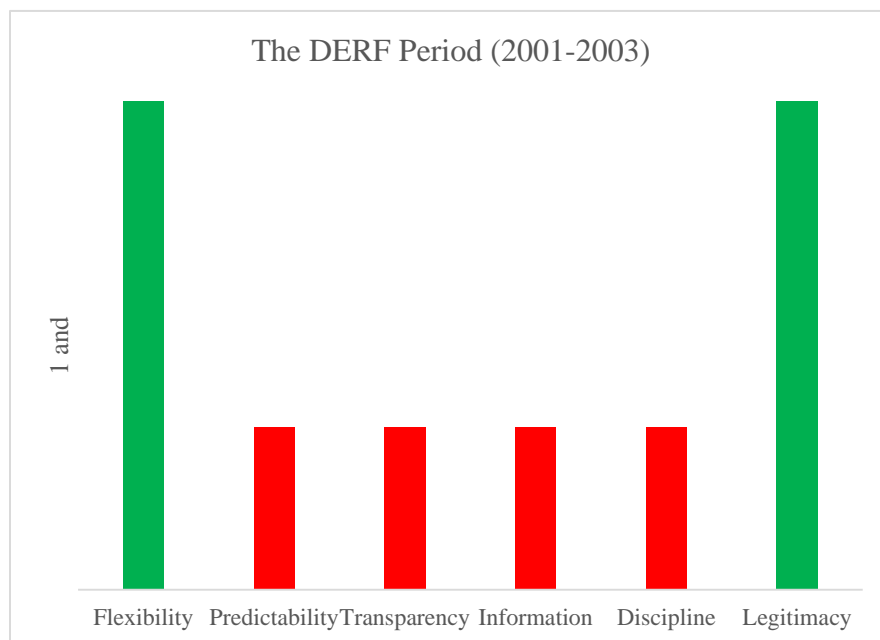


Figure 10. Sound Budgeting Principles Applied to the DERF Period (2001–2003).

## **2. IFF Period (2003–2005)**

In FY03, the Congress discontinued the use of the DERF account and began using a new account to appropriate funds to the DOD. Ideally, as more time lapsed it is expected that Congress would return to normal budgeting practices. At that time, Congress sought to reestablish congressional control by implementing more discipline in the budget process and requiring greater transparency and predictability in the budgeting practices (Rubin, 2009). Instead of appropriating the \$59.9 billion as requested by the DOD, Congress appropriated only \$15.7 billion via a newly established fund. The Iraqi Freedom Fund (IFF) implemented restrictions and tightened controls; the executive branch and the Congress began using the IFF to further fund contingencies in support of the Global War on Terror.

In 2005, non-emergency items were included in the emergency supplemental appropriations for defense (Rubin, 2009). For instance, Congress took advantage of the public's willingness to fund the war by padding the war needs with other, unrelated needs including \$5 billion set aside in the defense appropriation for foreign policy. This is contrary from what is typically expected to happen. As the wars in Afghanistan and Iraq evolved, ideally there would be more details to allow for greater information, predictability, and transparency. The boundary of what belonged in the base budget versus what was considered an "emergency" had shifted over time. The vagueness of the rules negatively compromised the principles of discipline and further impacted transparency because the priorities were not clearly communicated to the public by mixing emergency and non-emergency items, legitimacy by deliberately padding the defense budget with unrelated requirements, and predictability by not properly balancing the available resources with the needs of the future.

Congressional scrutiny continued to place pressure on policy-makers to change the budgeting practices that were not in keeping with the principles of sound budgeting. From 2003 to 2005, Congress tried to steer budgeting practices in the direction of ideal practices by eradicating the use of the DERF and implementing the IFF. However, there was a trade-off between discipline and legitimacy that resulted in an adverse decrease in discipline. By implementing guidelines, rules, and restriction with the IFF, there was an

initial increase in discipline but a decrease in the level of legitimacy because funds that were appropriated did not align the inputs from senior leaders about the requirements of their programs. Instead funds were not appropriated based on strategic capabilities but rather on the agenda of Congress. Although there were more restrictions on the use of funds, flexibility remained high because it was the combatant commander driving the budget, not Congress. Predictability and information did not change because of the IFF. Though, information was not sufficient, it did improve transparency from the levels seen during the DERF period regarding the program requirements due to the restriction of the IFF that included that funds must be “transferred to various appropriations to meet the most urgent requirements from Operation Iraqi Freedom and the Global War on Terrorism” (Under Secretary of Defense, 2003, p. 1; see Figure 11).

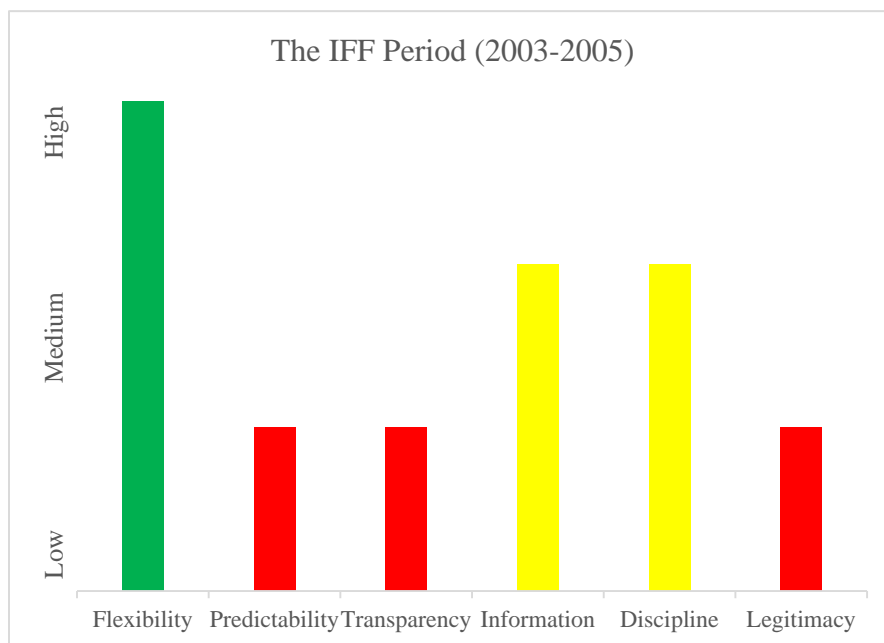


Figure 11. Sound Budgeting Principles as Applied to the IFF Period (2003–2005).

### **3. Bush's Second Term (2005–2008)**

In FY06, the supplemental appropriation request of \$116 billion was not received until the middle of the year which allowed little time for Congress to review the request; thus, the request was not approved by Congress until late in the fiscal year (Hale, 2016; Williams & Epstein, 2017). The services (mainly the Army, which received most of the funding from the supplemental appropriations) were forced to use funds provided from other funding sources to fund war-time activities, violating fiscal law (Hale, 2016). Supplemental appropriations were often requested mid-year, were provided for in large amounts, and included insufficient details of the use of funds provided (Hale, 2016). This was contrary to what would be expected from the budgeting process. Ideally, all budget requests should be presented in a timely manner, in accordance with the budget schedule, and approved in a timely fashion to ensure that program needs are adequately provided and appropriated for. This example illustrates how budgeting practices included last minute funding requests with insufficient details, forcing service chiefs to use creative budgeting to achieve strategic objectives and forcing Congress to make hasty decisions regarding funding. This illustrated how the service chiefs made compromises among predictability by requesting funding at the last minute which did not allow time for Congress to make decisions in a timely fashion which compromised budget discipline and disrupted the budgeting process. These practices also degrade information because Congress is forced to make budget decisions with little regard to the quality of the information and/or feasibility of cost due to the limitation of time.

By FY07, the DOD was still seeking greater flexibility. For instance, the DOD took advantage of appropriated funds that were authorized for war-related activities. As an example, the DOD requested funding for the V-22 aircraft (still in production) to replace the H-1's that were lost in combat. Although the DOD's request was considered in excess to the requirement and stricken from the request by OMB, the DOD sought greater flexibility by "broadly interpreting" the rules (Candrea, 2017). This was contrary to the norm: Congress provided appropriation funding for major aircraft using supplemental appropriations in place of incremental funding as intended for normal budgeting practices. This was a prime example of a lack of discipline in the budget

process where imprecise statutes allow opportunity for rules to be misinterpreted. The DOD practices also decreased predictability because the future needs were not balanced with the available resources present to provide for the then-current program requirements. Supplemental appropriations are usually reserved to fund emergencies and exceptional circumstances, so the DOD issued guidance allowing the use of supplemental appropriations for all costs associated with the “longer war on terror” (Hale, 2016). Once again, Congress began expressing “concerns about the use of supplemental appropriations to fund wars” (Hale, 2016, p. 4).

During President Bush’s term in office, an accumulation of things attributed to the significant change in budgeting practices. Tax cuts and deficit growth with an emphasis on “expanding the executive role of budgetary power” was the Bush administration headline. U.S. events during the 2001–2008 period are partly to blame for the major shifts seen in budgeting practices during that time (Rubin, 2009). In sum, the Bush administration focused more on loyalty to the services rather than on transparency in budgeting and financial accountability (Rubin, 2009). One would have expected a return to more normal budgeting practices during Bush’s second term in office, but that did not occur. Immediately following the terrorist attacks of 9/11, Congress and the administration used budgeting practices as expected, but as time continued, Congress urged budgeting practices to revert to normal. In doing so, Congress implemented the IFF, which proved to increase the level of information and discipline but compromised legitimacy by taking advantage of the vague guidelines of the IFF. These budgeting practices resulted in low levels for five of the six budgeting principles. And, a medium level of flexibility, because the budgeting practices did not exercise restraint, did not prescribe how the funds were spent, and needs were not prioritized in accordance to resource allocation (see Figure 12). Nonetheless, the budgeting practices for funding OCO using supplemental appropriations failed to align with the sound budgeting principles and provide a budget that upkeeps the integrity of the budgeting process. Consequently, in 2009, with the implementation of new leadership, there was a call to change the criteria for funding OCO.



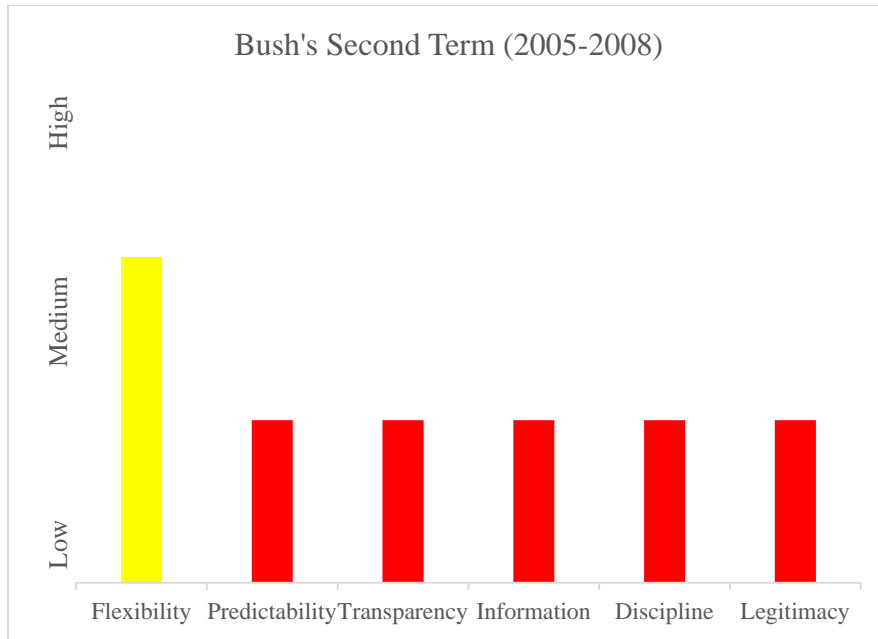


Figure 12. Sound Budgeting Principles as Applied to Bush's Second Term (2005–2008).

## B. MAPPING THE PRINCIPLES TO THE OF EVENTS BETWEEN 2009 AND 2016

As the level of troops in country began to sharply decline beginning in FY09, OCO funding remained high and there was still not enough restriction in the budgeting practices to prevent the misuse of OCO funds (see Figure 13). According to the DOD budget document, the OCO funding remained high to support in-theater support costs for units operating outside the Afghanistan and Iraq regional area who provided combat support to the troops in Afghanistan and Iraq (Hale, 2016). Most of the in-theater support costs were funded for separately, mainly in the base budget, therefore resulting in inconsistent budgeting practices in the DOD's budget of what was being requested compared to what was spent (Hale, 2016; see Figure 13).

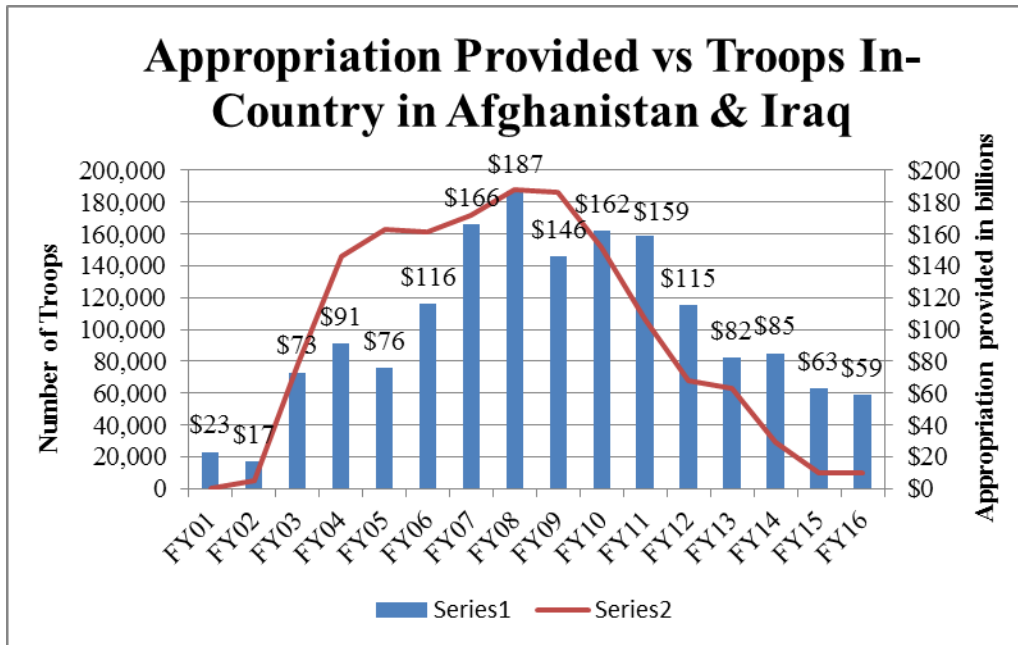


Figure 13. Appropriation provided FY01 and FY16 and Total Number of Troops in Afghanistan and Iraq. Adapted from Belasco (2009); Williams & Epstein (2017).

President Barack Obama sought to restore the principles of sound public budgeting back into the budget process regarding funding contingency operations by establishing a fiscal policy that promoted fiscal responsibility. In doing so, the administration switched from GWOT to OCO, moved from supplemental appropriations to annual OCO requests, and began including a placeholder in the defense budget for out-year requirements. These were all attempts to increase discipline, predictability, and transparency. But in 2009, when the DOD put a \$70 billion placeholder in the budget request without any details on how the DOD would apply this money to the war-related activities in Afghanistan and/or Iraq, “commentators began to call the supplementals ‘blank checks’” (Rubin, 2009, p. 5).

### 1. Obama’s First Years (2009–2011)

In 2009, OCO rules permitted the use of OCO funding to purchase equipment that was destroyed while conducting contingency operation in a wartime region but did not clearly state how OCO funds would be used to replace equipment that would take years

to produce (Hale, 2016). Costs to purchase major equipment are usually funded through procurement funds (available to use for three years) and not incrementally funded on an annual basis. This change in budgeting practices lacked predictability because it allowed last-minute budget requests with low levels of information, and the request contained few details about balancing the present resources with future needs. It also had low levels of legitimacy because the new OCO rules contradicted fiscal law of purpose, time, and amount by commingling funds appropriated for war time activities with funds appropriated for procurement. The vagueness alone dictates low levels of transparency. The budgeting practices from 2009 to 2011 prompted Congress and the OMB to consider re-defining OCO to include guidelines on what OCO can fund and what was required to be budgeted for through the regular base budget.

Early in 2010, Secretary of Defense Robert Gates stated in an interview that due to the delay in funding supplemental appropriations, Congress would have to do “stupid” things in order to cash-flow wartime operations because of a lack of predictability; he hoped that the new OCO mechanism would provide a more lasting relief from major disruptions throughout the planning phase of formulating the budget (Wallace, 2010). Typically, supplemental appropriations funded contingency operations and if the new OCO mechanism required the DOD to submit a separate supplemental request simultaneously with the regular budget request, a delay by Congress in funding the appropriations would be expected. These budgeting practices had a medium level of discipline since budgets were not completed in a timely manner. However, it increased legitimacy and transparency because the budgeting practices clearly communicated the priorities of the program needs by the service leaders to the public.

In 2010, recommendations provided by the GAO prompted changes for better reporting of the DOD’s OCO obligations (GAO, 2017). As expected, the OMB along with the DOD sought to define the new OCO mechanism to restore budgetary integrity. The changes to the OCO criteria were intended to implement discipline that would improve transparency, legitimacy, and reliability of information, while still allowing the level of flexibility needed to make efficient decisions on program requirements. The DOD, in response, began validating OCO obligations quarterly and collecting costs data

using an accounting system instead of manual collection to verify accounting and qualify the costs-of-war reports sent to Congress to increase the reliability of information, legitimacy, and predictability (GAO, 2017).

In 2011, the BCA was established to reduce the deficit and balance the budget. Since OCO funds were typically designated as “emergency” funds, the BCA caps did not apply (Williams & Epstein, 2017). The term *OCO* had replaced all other terms related to funding contingency operations that were in support of the Global War on Terror. It would be expected that budget enforcement mechanisms like the BCA would restrict practices that compromised the principles of sound budgeting. Ideally, the BCA would implement greater discipline throughout the budget process by imposing restrictions that limited funding. However, it erodes transparency because the restrictions motivated policy-makers to make compromises in other budget priorities to adequately fund defense for war time activities. The BCA stressed a high level of predictability and information by requiring federal agencies to plan for and program their requirement needs based on timely and accurate budgetary information to allow policy-makers time to make sound budget decisions. The BCA had a dramatic effect on the size of the deficit and did rein in spending. DOD lost hundreds of billions of dollars in the base budget across the FYDP and Congress restored only a few tens of billions by taking advantage of OCO.

The OCO appropriation differed from the previous funds in that it separated OCO funding from supplemental appropriations, and OCO budget requests would then be submitted concurrently with the regular base budget request for defense. Congress would provide funding for contingency operations using a separate supplemental appropriation bill. The new way of funding OCO requirements sought to allow the level of flexibility in budget authority that was required for contingency operations while increasing predictability by understanding the program needs and requirements, increasing discipline by capturing all the funding related to war activities in one account, and increasing legitimacy by giving more authority to the DOD to include item requirements needed for contingency operations. However, the inherent flexibility in the use of OCO caused variation in the interpretation of the guidelines; thus, decreasing the quality of

information by skewing the projections and outcome of future war activities as it related to current operations (see Figure 14).

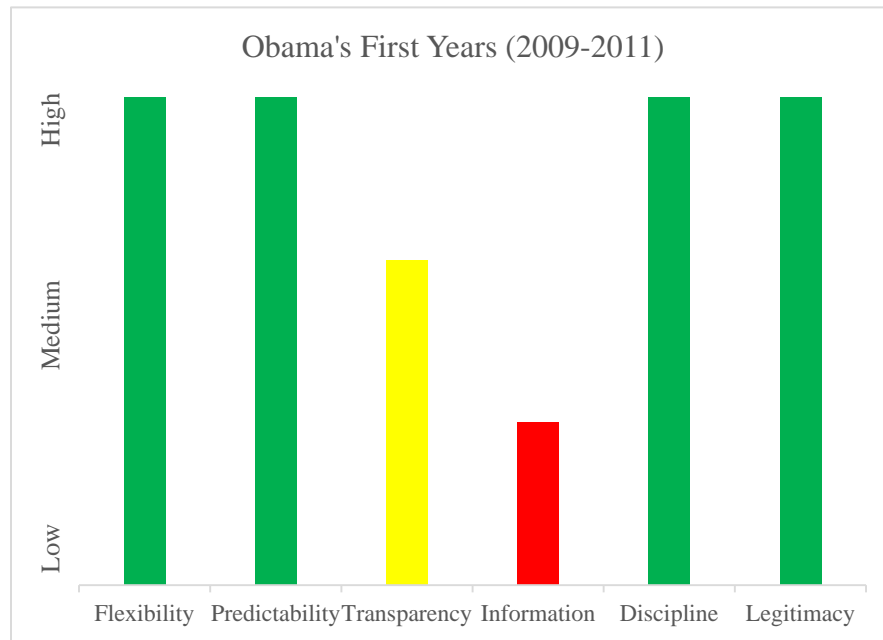


Figure 14. Sound Budgeting Principles as Applied to Obama's First Years (2009–2011).

## 2. Deficit Control Period (2012–2016)

With the new OCO mechanism guidelines and the enactment of the BCA, the budget process seemed to be improving. Then in 2013, due to the limitation of the BCA of 2011, the United States faced sequestration that would result in an across-the-board cut to all discretionary spending. The government would be expected to act in the best interest of the citizens, operate within the guidelines of the law, and properly plan the budget in accordance with the rules. Doing so would demonstrate practices that were highly disciplined, legitimate, and transparent with a high level of information. Instead, President Obama requested an increase to the budget caps, and Congress obliged by enacting the Bipartisan Budget Act (BBA) to increase the sequestration caps for 2014 from \$498.1 billion to \$520.5 billion and for 2015 from \$512 billion to \$521.3 billion in exchange for extending the imposition of the budget caps under the BCA into 2022 and

2023 (United States House of Representatives, 2013). The enactment of the BBA compromised discipline for flexibility.

Still, in 2014, the Congress began to purposely add base requirements to the OCO account, even though the spending limits were already increased. For example, the DOD transferred close to \$20 billion from the O&M appropriation request from the base budget into the OCO appropriation request, resulting in Congress moving an additional \$9.6 billion of non-war-related funding from the base budget appropriation into the OCO account. Ideally, the actions of Congress would support the laws and encourage budgeting practices that were congruent to the principles of sound budgeting. But these budgeting practices compromised predictability by imposing last minute changes into the funding requests, legitimacy by deliberately appropriating funds with the intention to later move them to circumvent the enforcement rules, and transparency by inaccurately communicating the priorities of the budget to the public, in exchange for even more flexibility. The effect was an overall cut of less than 1% from defense spending as opposed to the mandated sequester cut of \$34 billion for FY14 (National Security Network, 2014).

In 2015, the accounts of misuse appeared more than in previous years. For instance, the DOD submitted a budget request that surpassed the BCA caps by nearly \$38 billion. Dreading having to force Congress to decide whether to trigger sequestration or reduce the president's budget, the president wrote a statement justifying the excess need for an increase in spending. In response, Congress moved over \$38 billion from the defense base budget into the OCO appropriation (Williams & Epstein, 2017). In accordance with the BCA, the Congress should have either triggered sequestration or cut funding from the president's budget request. Although, the Congress granted the president request for more money, the president vetoed the Congressional action, stating the actions was fiscally irresponsible and did not provide a sound budget solution (Williams & Epstein, 2017). The president's reaction encouraged discipline,

transparency, and legitimacy as he stated in his veto that “this bill fails to authorize funding for our national defense in a fiscally responsible manner” (Williams & Epstein, 2017, p. 23). In response, the BBA of 2015 was signed into law, increasing the budget caps for FY16 and FY17.

Still, in 2016 after a second BBA passed, raising the sequestration caps for 2016 and 2017, Congress continued to use the OCO account as a “slush fund” to fund non-war-related items. The president’s OCO budget request for FY17 included \$58.8 billion for defense, which complied with the target level imposed by the BCA but included \$5.1 billion that was reserved for base budget requirements not funded via the base budget to circumvent the budget caps limitations (Williams & Epstein, 2017). Policy-makers would be expected to refine the BCA guidelines to address the recurrent need to increase the spending limits to address the present needs. Under the guise of reducing future deficit, these budget practices allowed both the president and Congress high levels of flexibility but lacked any semblance of discipline or any other principles of sound budgeting.

Still, with no guidelines on what could or could not be designated as an “emergency” Congress had the freedom to designate almost anything they deem an “emergency” as such. Congress technically could remain within the budget by placing what belonged in the base budget into the OCO account to provide extra funding for defense (Hale, 2016). The lack of restraint provoked policy-makers to further take advantage and make compromises among the principles to push their own agenda in the budget (Candrea, 2017). Many argued the budgeting practices used by Congress and the president were necessary to provide adequate funding for defense requirements for war-related contingency operations while others criticized legislatures actions as a budgetary “gimmick” that “undermined the integrity of the budget process” (National Security Network, 2014; see Figure 15).

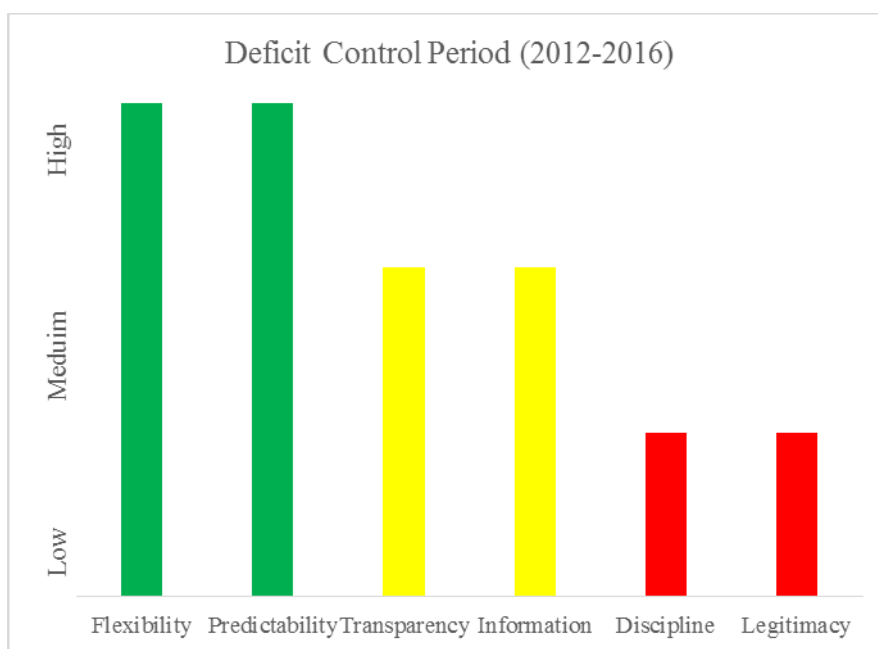


Figure 15. Sound Budgeting Principles as Applied to The Deficit Control Period (2012–2016).

### C. CONCLUSION

As expected when budgeting for a contingency, the emphasis will normally shift towards flexibility as policy-makers strive to act during a time of crisis (Candрева & Jones, 2005, p. 4). But, the nature of emergencies is such that policy-makers often compromise other principles like reliable information and legitimacy to adequately fund the immediate requirement. To deal with that, governments tend to shift the definition of what constitutes such an emergency. For instance, the definition of an emergency at the beginning of a war reflects the true nature of an emergency as designated by Congress. But later, as the emergency evolves or concludes, policy-makers find ways to circumvent or change policy or definitions to make the situation conform to allow for budgeting as they see fit (Williams & Epstein, 2017). While too much flexibility and too little restraint engenders corruption, too little flexibility and too much restraint builds rigidities and inhibits innovation and change (OECD, 2014). Comprehensiveness and transparency are essential for effective aggregate fiscal discipline and formal rules that are designed to achieve aggregate fiscal discipline create incentives for evasion, particularly to take



activities off-budget or to engage in creative accounting (OECD, 2014). Below is the application of the sound budgeting principles as seen through varying budgeting practices during (2001–2016; see Table 2).

Table 2. Application of Sound Budgeting Principles (2001–2016).

	DERF Period (2001–2003)	IFF Period (2003–2005)	Bush's Second Term (2005–2008)	Obama's First Years (2009–2011)	Deficit Control Period (2012–2016)
Flexibility					
Predictability					
Transparency					
Information					
Discipline					
Legitimacy					

Table 2 illustrates the evolution of how the sound budgeting principles during (2001–2016) were applied to the varying budgeting practices within five distinct periods during that time.

During the DERF period (2001–2003), there was a lot of flexibility given by granting the DOD autonomy to make budget decisions, with few restrictions on the DOD’s delegatory budget authority. Due to the unforeseen circumstances of the attacks of 9/11, there were low levels of predictability, transparency, information, and legitimacy as expected when budgeting for contingency operations. Discipline was compromised for high levels of flexibility which prompted Congress to search for a new way to fund contingency operations that would still provide flexibility; but, increased the level of discipline.

During the IFF period (2003–2005), the war in Afghanistan and Iraq evolved, and Congress ceased using the DERF in exchange for the IFF. The IFF reduced flexibility within an acceptable amount so that the budgeting practices still allowed Congress to

delegate budget authority with a high degree of autonomy to make decisions about resource allocation. It also implemented discipline by imposing restrictions on the use of appropriations funds to fund contingency operations in support of the Global War on Terror, improving transparency and information.

As time elapsed and the War on Terror continued, the administration began to use budgeting practices that demonstrated loyalty to the cause of war rather than emphasizing fiscal responsibility. By that, the Bush administration began to take advantage of the vague policy guidelines of the IFF implemented by Congress. As the tension grew between Congress and the executive branch, there was little focus given to using budgeting practices that were in keeping with the principles of sound budgeting, resulting in low levels of all but one sound budgeting principle, flexibility.

In 2009, the president and Congress changed the way OCO funds were provided and appropriated for; concurrently, a new regime strived to reinstate the principles of sound public budgeting into the budget practices dealing with OCO funding by establishing a fiscal policy that promoted fiscal responsibility. The changes had a positive impact on the budgeting practices during Obama's first years (2009–2011). It would be the first and only time that budgeting practices exemplified high levels of both flexibility and discipline simultaneously. Additionally, there were high levels of predictability and an increase from low level to medium level in both transparency and legitimacy. The new OCO mechanism proved to revert budgeting practices back into the direction of sound budgeting.

However, in 2011, President Obama signed the BCA into law after the federal statute was first enacted by Congress to control the deficit, thus imposing greater restrictions to the budget process, forcing Congress to use creative budgeting practices to adequately fund program requirements for defense programs. These practices reduced the legitimacy of funding as Congress deliberately appropriated funds with the intentions of later moving them to the base budget, to circumvent triggering sequestration by exceeding the set limits of the budget caps. Discipline has two elements, process and amount. The BCA added discipline to the latter but was written in a way where it was possible to cheat on the margins. Congress used budgeting practices to flaunt the rules,

resulting in a low level of budget discipline regarding the process. Congress traded the application of the transparency principle for greater applications of predictability because the limitations of the BCA motivated policy-makers to compromise other funding priorities to adequately fund the DOD for war-time activities in support of the Global War on Terror, reflecting an understanding in the DOD's need for program requirements.

Following the 9/11 terror attacks, the United States was considered to be in a state of emergency but since then, the military operation in support of the Global War on Terror no longer qualify under the definition of an "emergency." Additionally, the term *contingency operations* has been generally applied to all military operations since 2001 that deal with the Global War on Terror and that have received funds via supplemental appropriations, which are usually reserved for "emergencies." The general use of these terms and budgeting practices that involved "emergency," "contingency operation," or "supplemental appropriations" have falsely made the three terms seem interchangeable. As time evolved, so have the definitions of these terms; consequently, so did the budgeting practices. In the following chapter I analyze those changes and provide a summary of my findings, make a recommendation, and provide suggestions for further research.

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## **V. CONCLUSION**

The base budget for defense accounts for costs associated with training, manning, and equipping the military during peacetime but neglects to appropriate funds for war-related activities, support, and equipment. There is no argument that the terrorist attacks on 9/11 qualified as an emergency or that the use of supplemental funds was appropriate for the circumstance in 2001. However, after 15 years, classifying OCO as an “emergency,” specially to avoid deficit reduction targets, fails to keep with the principles of sound public budgeting. While compromises are necessary to support efforts during times of crisis, there is a point in which contingencies can no longer be defined as an “emergency,” in which case budgeting practices should normalize.

The goal of this project was to answer the following question: As budgeting and appropriation practices for contingency operations evolved, to what extent were they consistent with the principles of sound public budgeting? Chapter II described the budget process as it should work in such situations, Chapter III described the actual events from 2001–2016, and Chapter IV compared those actual events to the idea through the lens of the principles of effective public budgeting.

### **A. SUMMARY OF FINDINGS**

This study revealed that budgeting practices for contingency operations in both the executive branch and Congress have evolved significantly over the past 15 years and when the practices changed, policy-makers did not always rationalize the change in the terms of adhering to good budgeting principles, but often to advance their own agenda.

Immediately after the 9/11 attacks, the government did what was expected. Because good information did not exist, needs were not predictable, and flexibility was necessary for an effective response, the administration sought and Congress provided funds with a lot of flexibility through a much-abbreviated process. Within a couple of years, Congress began reverting to more normal budgeting processes by reducing flexibility, but the administration had learned to appreciate those freedoms and sought

even more. This had the unintended consequence of slowing down the appropriations process, and eroding some of the discipline that Congress was attempting to inject.

By funding the contingencies in supplemental appropriations, the Bush administration was able to concentrate attention on the cost of war (increasing transparency), and assuring that funds were appropriated in a timelier fashion than through the slower, regular budget process (adding flexibility). These practices came at the cost of predictability because of the ad hoc nature of the requests and good information because the long-term costs of war-related funding were not considered in the regular base budget. At the same time, we see Congress using the supplemental appropriations for non-defense purposes. These appropriations were considered “must pass” and became favorite targets for adding provisions unrelated to the war, eroding legitimacy and process discipline.

Throughout this period, the boundary between what was considered war-related and what was a base requirement changed, depending on who the key decision-makers were and their objectives. The definitions varied and the border between the two budgets was porous. While this is evidence of flexibility, it is not a healthy flexibility because it came at the cost of transparency, reliable information, and predictability. It shows a lack of budget process discipline.

The Obama administration attempted to restore some of that process discipline by aligning the budget calendar, requesting OCO funds at the same time as base budget requirements. They also added a modest amount of predictability and transparency by including out-year placeholders in the budget. At this point, the overseas contingencies were hardly emergencies and could be funded on a more predictable basis. But with concerns about the deficit changing budgeting practices, the desires of the military (and their supporters in Congress) led them to take advantage of the emergency exception to the budget caps, eroding budget discipline with respect to both process and amount, while also eroding transparency and good budget information. This process was also less predictable as it depended on Congress’s willingness to cheat.

## **B. CONCLUSIONS**

It is now possible to theorize on what occurred. Shortly after the crisis, budget behavior compromised sound budgeting principles in a way that matched the ideal expectation: flexibility and timeliness were paramount and other principles were compromised because they were unattainable in the moment. As events became more predictable, Congress began to restore its power of the purse, and the administration resisted because of the many advantages of enhanced flexibility. Where policy-makers' expectations could be met by compromising sound budgeting principles, they attempted to do so unless the political cost was too high. At times, others within the system could exert checks and balances. With a change in administration, newfound discipline was interjected until that discipline affected policy goals and then the discipline was compromised again.

Funding ongoing military contingency operations overseas is a recurring issue for Congress. Future Congresses will debate whether funding contingency operations should be provided for in a supplemental appropriation through an "emergency" account or whether it should be a part of the regular base budget for defense provided for through annual request. Congresses will always balance the public's desire for sound budgeting practices with more immediate policy goals that pressure policy-makers to compromise some of those practices.

Similarly, because the DOD currently does not budget for contingencies, but ironically exists to conduct contingency operations, there is a constant dissonance between what the DOD is supposed to do and what it actually does when budgeting. The discussion of where OCO appropriations belong, whether in the base or a separate OCO account, is clouded by vague definitions of understanding with regard to the terms associated with an emergency, a contingency operation, and a supplemental appropriation, as well as understanding the difference between defense and overseas war funding, as there is currently no distinction. The issues remain unsettled, and probably will be for some time.

“An important starting point is to identify which level of decision making is best served by either more or less flexibility and then build in transparency and accountability mechanisms to restrain the level of flexibility” (OECD, 2014, p. 24). The need for a proper framework that supports funding for contingency operations exists. There is a foundation upon which the proper application of the sound budgeting principles can be balanced with budgeting practices to ensure that funding contingencies support the overall objectives of the budgeting system. I recommend the president, Congress, and other federal agencies consider the budgeting practices over the last 15 years as a guide for future application of the sound budgeting principles when budgeting for contingency operations. Because contingency operations are not synonymous with an “emergency,” the DOD should consider revising the FMR to allow for budgeting for contingency operations, whether included in the base or via a separate appropriation. The budgeting system thrives when each of the sound budgeting principles are applied to the budgeting practices appropriately throughout the budgeting process. I urge that the president, Congress, and the federal agencies improve their internal processes which they plan for and program based on fulfilling a requirement to achieve their objectives. Congruent efforts in the beginning parts of the process can increase the chances for a successful budget execution. As the budgeting process is an iterative process, I encourage all participants to continually reassess budgeting processes and readapt by learning from past occurrences to improve future practices and strengthen the foundation on which the budgeting framework was built.

### **C. SUGGESTIONS FOR FUTURE RESEARCH**

This thesis covered only the period immediately following the terrorist attacks in 2001 until 2016. There are three suggestions for further research.

The first suggestion is to broaden the scope of this thesis by continuing this research through the Trump administration to evaluate the applications of the sound budgeting principles to the budgeting practices in funding contingency operations continuing to FY17 and beyond.



The second suggestion is to evaluate the application of the sound budgeting principles using all 10 principles of sound budgeting instead of the six used in this study to determine other deviations from the normal budgeting practices when budgeting for contingencies.

Lastly, I suggest digging deeper into the motivations that guided policy-makers to rationalize their changes, whether in the terms of the principles of sound budgeting or not, when budgeting for contingency operations.

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